Special Report

Top 30 Ocean Carriers: New era of collaboration?

Big shippers and the world's top carriers vow to work collectively towards leveraging technology to improve business processes and relationships. Will they make good on the promise or slip back to business as usual?

By Patrick Burnson, Executive Editor

One of the biggest stories to unfold this fall in the ocean carrier arena was when The GT Nexus Shipper Council announced the challenge for the Top 30 players to make good on their promise to collaborate. Created in 2007, the GT Nexus Shipper Council is a group of large shippers, across many industry verticals, with combined annual revenues in excess of $1 trillion. Collectively, the group moves over 5 million twenty-foot equivalent units (TEUs) of ocean freight each year.

The Council has now engaged Maersk Line in response to the carrier's recently announced "Manifesto" that calls for changes in the way carriers and shippers conduct their business. The Shipper Council is also working with executives at other leading carriers to drive change at an industry level.

"Maersk has risen steadily from its initial low ranking in our annual Ocean Carrier Performance Survey," says Peter Friedmann, executive director of the Agriculture Transportation Coalition. "This comes as the direct result of diligent efforts to address specific issues identified by shippers relating to documentation and bills of lading."

Maersk Chief Executive Officer Elvind Kolding unveiled the Manifesto initiative a few months back, stating that "reliability is not good enough, the industry is too complicated for customers, and transparency of its environmental performance and record needs to be greatly improved."

Prominent members of The Shipper Council agree, saying that they share in a mission to work collectively towards leveraging technology to improve business processes and relationships with common industry partners. "The Shipper Council has been advocating change for the past two years," says Mike Murphy, associate director of logistics procurement at Kraft Foods Global, Inc. "When we saw Mr. Kolding's announcement, we immediately saw an opportunity to take action."

Dennis Melgert, strategic sourcing manager of logistics at chemical products producer Celanese Corp., shares Murphy's vision: "We believe that there is an opportunity to engage the liner industry as a group and make broad substantial change that benefits everyone. We were thrilled to see Maersk Line take the lead."

The Shipper Council has already established a dialogue with Maersk and executives from several other leading carriers. The group says that it's committed to coming up with specific ideas that can be implemented quickly to the benefit of both shippers and carriers. Ideas on the table include:

- managing allocations and improving forecasting on a secure neutral platform;
- streamlining documentation and substituting electronic bills of lading for paper to act as "one version of the truth;"
- using technology to improve business-to-business processes between shipper and carrier; and
- collaborating "in the cloud" by using our virtual community to its full potential.

"Reliability, predictability, and simplicity creates value," says Siva Narayanan, head of maritime and warehousing at Rhodia Inc., a specialty chemicals company. "We believe that collaboration fused with neutral, industry-wide technology adoption will help achieve the vision that Maersk put forward."

Patrick Halloran, director of global trade and logistics at Cardinal Health, is also on the same page with his fellow council members, noting that the key now is to move past dialogue and into action. According to Halloran, The Shipper Council is committed to making this happen. "Members are contacting carrier executives and hosting meetings to develop specific plans," he says. "The group will then determine what it can do to collectively address some of finer details in the relationship."

Alphaliner Top 30

(Operating fleets as of September 2011)

RANK	OPERATOR	TEU	SHARE
1	APM-Maersk	2,455,014	15.7%
2	Mediterranean Shg Co	2,029,482	13.0%
3	CMA CGM Group	1,324,174	8.5%
4	COSCO Container L.	650,840	4.2%
5	Hapag-Lloyd	627,725	4.0%
6	Evergreen Line	611,678	3.9%
7	APL	586,364	3.7%
8	CSCL	505,913	3.2%
9	Hanjin Shipping	494,654	3.2%
10	CSAV Group	468,562	3.0%
11	MOL	421,303	2.7%
12	OOCL	412,182	2.6%
13	Hamburg Süd Group	405,897	2.6%
14	NYK Line	397,473	2.5%
15	K Line	342,763	2.2%
16	Yang Ming Marine Transport Corp.	336,328	2.1%
17	Zim	332,845	2.1%
18	Hyundai M.M.	306,443	2.0%
19	PIL (Pacific Int. Line)	266,042	1.7%
20	UASC	234,815	1.5%
21	Wan Hai Lines	170,510	1.1%
22	HDS Lines	88,744	0.6%
23	TS Lines	77,500	0.5%
24	X-Press Feeders Group	62,477	0.4%
25	CCNI	60,293	0.4%
26	MISC Berhad	55,192	0.4%
27	Matson	49,530	0.3%
28	RCL (Regional Container L.)	49,339	0.3%
29	KMTC	48,404	0.3%
30	Grand China Logistics	47,576	0.3%

Source: Alphaliner

Better late than never

This development is coming just in time, say analysts, who note that carriers were beginning to go too far in their zeal to recapture rates this year. The European Commission's investigation of "price-fixing" has vessel operators scurrying for cover, but regulators in the U.S. are doing their part to keep the game board free from collusion.

The European Commission's investigation of ocean carrier antitrust rules ramped up to a new level last spring as Asian companies were also brought into view. Meanwhile, the Federal Maritime Commission is listening to U.S. shipper complaints that Transpacific "talking agreements" represent an added monopolistic threat.

"In the old days of conference pricing, this kind of behavior was called 'independent action,'" says Dirk Visser, managing director of the Dutch consultancy Dynamar. "But the government is now becoming much more vigilant where this is concerned."

Indeed, the Commission reports that when antitrust officials raided European headquarters, Asian carriers were among the others targeted for investigation. Neptune Orient Lines, OOCL, Evergreen Marine, and Hanjin Shipping—all leading operators in the transpacific trade—are said to be complying with the price-fixing probe.

Just last May, EU regulators began searching through the files kept by Maersk, CMA-CGM, and Hapag-Lloyd. The unannounced visit was made to enforce the abolished exemption from antitrust activity the Commission enacted three years ago. Spokesmen for OOCL confirmed that the Commission's raid was not "carrier specific," and

that it was complying with investigators. Meanwhile, Visser tells *Logistics Management* that the few remaining U.S.-flag carriers were unlikely to face similar scrutiny. "Only APL is at risk," says Visser, "but of course, that belongs to a Singapore-based company now."

But that's not to say that this segment is without the stain of malfeasance. Earlier this year, Horizon Lines, a pure-play domestic carrier based in Charlotte, N.C., was fined $45 million for a scheme of its own following Justice Department charges that it had conspired with Crowley, Sea Star, and Trailer Bridge to fix prices and increase fuel surcharges on shipping lanes to Puerto Rico.

Dissecting talking agreements

Shippers comprising the Agriculture Transportation Association and the National Industrial Transportation League (NITL) allege that carriers in the transpacific are also quietly colluding on prices through *sub rosa* "talking agreements."

The Federal Maritime Commission (FMC) is currently looking into that matter, says spokesperson Karen Gregory.

Number 2 MSC is gaining ground

Maersk Line countries of origin for U.S. imports, TEUs

PLACE RECEIPT COUNTRY	2011	2010	% CHANGE
China	474,064	512,960	-7.58%
India	48,737	53,025	-8.09%
Indonesia	46,517	44,816	3.79%
Hong Kong	37,859	45,203	-16.25%
Vietnam	31,479	35,493	-11.31%
Netherlands	30,254	32,426	-6.70%
Japan	29,472	31,336	-5.95%
Korea, South	23,644	23,648	-0.01%
Germany	21,812	26,511	-17.73%
Pakistan	19,886	23,107	-13.94%

MSC Mediterranean Shipping countries of origin for U.S. imports, TEUs

PLACE RECEIPT COUNTRY	2011	2010	% CHANGE
China	456,313	384,078	18.81%
Germany	72,614	66,326	9.48%
Italy	70,354	54,947	28.04%
Belgium	44,903	35,756	25.58%
Brazil	39,371	39,203	0.43%
Chile	37,274	33,442	11.46%
Spain	22,829	18,769	21.63%
India	22,249	12,822	73.53%
Vietnam	20,484	15,781	29.80%

Source: Alphaliner

Meanwhile, responding to a request for comments from the FMC on the effect of slow steaming on U.S. ocean liner commerce, most shippers found little or no rate or service benefit.

"This was particularly true on the transpacific, where carriers engage in a collective assessment of the rate structure," says Peter Gatti, NITL executive vice president. "We, of course, agree that there are environmental advantages to slow steaming, but shippers were also counting on a pricing break from the carriers comprising the Transpacific Stabilization Agreement (TSA) and that hasn't happened."

Indeed, says Gatti, one non-conference carrier, Matson, which has been operating a dedicated shuttle from Shanghai to Long Beach, has been running at normal knot-speed and delivering goods at a competitive price point. "So from a money-saving perspective, slow steaming's advantages are negligible," adds Gatti.

Spokesmen for the World Shipping Council (WSC) have also been telling *Logistics Management* that while its member's comments were largely in support of continued slow steaming, the issue was largely confined to the transpacific lanes.

"To my knowledge, we don't face this problem anywhere else in the marketplace," says WSC spokesperson Anne Kappel. "Besides, the FMC does not have the enforcement powers to regulate any trade lane based on request for comments."

According to the NITL's Gatti, supply chains have suffered negative impacts as a result of slow steaming. He says that shippers are reporting

that transit times have risen, effective vessel capacity has dropped, shortages in containers and equipment have been exacerbated, and meeting customer expectations is more difficult.

"One of the key aspects of the supply chain is that transit times affect inventory," says Gatti. "Initially, slow steaming accelerated the depletion of inventory making it harder for shippers to fill their store shelves and manufacturer's production lines in a timely manner." Over time, however, shippers have been forced to adjust to lengthened voyage times by increasing the amount of inventory they carry, at higher costs, Gatti adds.

"Goods that sit in inventory are simply not producing real economic output or providing any societal benefit," says Gatti.

Reversal of fortune

While the world's leading cargo vessel operators had seen a remarkable reversal of fortune last year, industry analysts predict the turnaround will be "short-lived." Alphaliner, the Paris-based shipping consultancy, reports that 19 of the top 25 ocean carriers it surveyed earned an estimated $14 billion in 2010, after losing $15 billion just the year before.

"Container carriers' margins recovered strongly in 2010 to a positive 7 percent from a negative 16 percent in 2009," says Stephen Fletcher, Alphaliner's commercial director. But analysts add that margins in the Asia-EU trade have softened, and that 2011 is likely to be a much weaker year in general.

Indeed, container rates have been sliding on all the major trading lanes since July 2010, with the exception of a small "hiccough" last winter, as liner companies tried to push for implementation of general rates increases in a weakening market, say analysts at the Baltic and International Maritime Council (BIMCO) in Copenhagen.

"The anticipated strong volume rebound following the Chinese Lunar New Year last February did not mate-

Asset-based carriers face new competition

There's an old joke still circulating in the commercial maritime community. It goes like this: "It's easy to end up with a million dollars by the time you retire from this industry. But first you have to invest 10 million."

This is not necessarily the case for non-asset-based middlemen, however. The Federal Maritime Commission had lifted the rate-tariff publication requirements for Non-Vessel-Operating Common Carriers (NVOCCs) earlier this year, thereby reducing regulatory burdens and bringing cost savings and flexibility to the ocean cargo marketplace.

The Shipping Act gives the Commission authority to grant exemptions from its requirements if doing so will not result in substantial reduction in competition or detriment to commerce. According to comments filed with the Commission, this action could save each of these businesses up to $200,000 per year.

The final rule establishes an instrument called a negotiated rate arrangement. Licensed NVOCCs who enter into negotiated rate arrangements with their customers will be exempted from the requirement of publishing their rates in tariffs if they meet the following conditions:

- NVOCCs would continue to publish rules tariffs containing terms and conditions governing shipments.
- NVOCCs would be required to provide those rules to the public free of charge.
- Rates charged by NVOCCs must be agreed to and memorialized in writing by the date cargo is received for shipment.
- NVOCCs must retain documentation of the agreed rate for a period of five years, and must make that documentation available promptly to the Commission upon request.

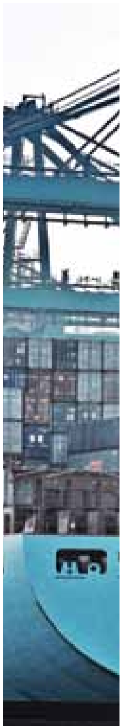
"After a year of work and many years of debate, the Commission has provided thousands of dollars per year in cost savings to these critical U.S. supply chain businesses and the hundreds of thousands of exporters and importers they serve," says FMC Chairman Richard A. Lidinsky, Jr.

—Patrick Burnson, Executive Editor

rialize, and that resulted in continued descending rates on most trading lanes," says BIMCO's Peter Sand.

Oversupply in the main routes is the reason behind the weak freight rates. The idle fleet of container ships now stands at 84 vessels, with a total cargo capacity of just 185,000 twenty-foot equivalent units (TEUs), the lowest level since November 2008. At the peak in January 2010, 1.5 million TEUs were idle.

"Severe overcapacity is poison to any freight market, as rates continue to decline even though volumes are growing fast…but not enough," says Sand. "Cascading remains a part of the game. It gives little comfort that freight rates on minor intra-Asian routes have



recently gone up by 10 to 20 percent."

Meanwhile, on the supply side, scores of "mega vessels" have been delivered into the Asia-Europe trade during 2011. BIMCO analysts say that spot rates would not be returned to sustainable levels until the Peak Season in the third quarter on main trading lanes from Asia to Europe and the U.S. West Coast.

"To restore freight rates significantly over the coming quarter, idling of vessels ought to be considered an option," says Sand. "That is, however, not expected to happen and that could jeopardize Peak Season earnings even if solid consumer confidence is restored and the high unemployment figures start to come down."

London-based Drewry Shipping Consultants believes that the industry has emerged from the global recession with both carrier profitability and demand figures recovering. But Drewry analysts raise the question: Have the carriers learned from their experience?

"The fact that no major companies 'went to the wall' still seems to have insulated the industry from the despair of 2009, and there is now the feeling that perhaps the dark days did not happen," says Neil Dekker, editor of the Drewry Container Forecaster.

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In essence, Drewry observes that its "back-to-normal" operating conditions for the market. "Perhaps the biggest carriers are happiest with no long-term profitability as long as they have market share," says Dekker. "However, the utopia of freight rate stability sought by shippers seems a long way off if carriers abandon their short-lived prudence and profitability," says Dekker.

—Patrick Burnson is Executive Editor of Logistics Management