# Supply Chain Disruptions, Consumer Demand Drive Liner Shipping Market Dynamics

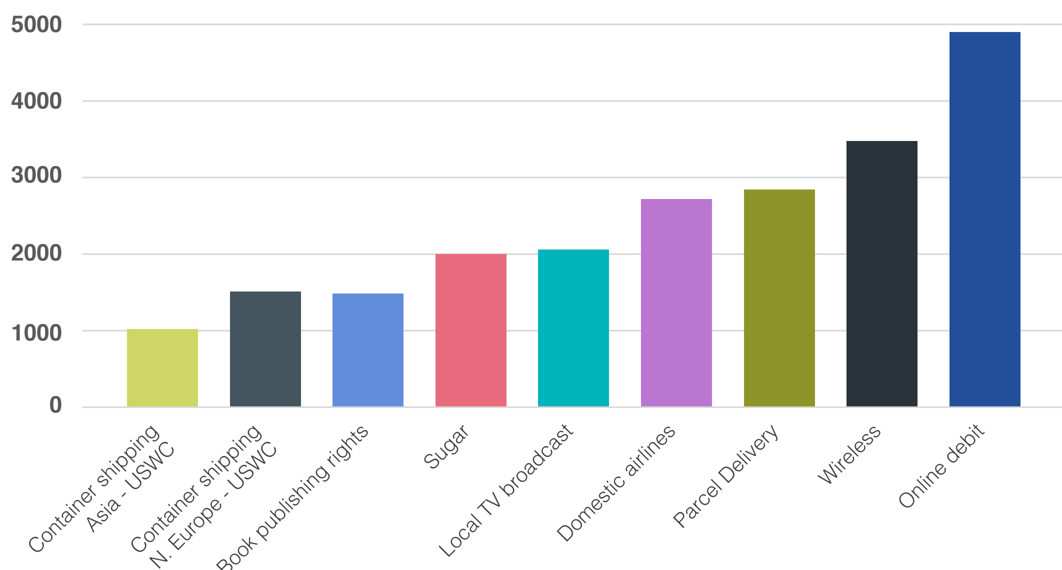
World Shipping Council

International trade is the backbone of the global economy. Liner shipping makes international trade possible by offering cost efficient and accessible transport for everything from raw materials, agriculture and machinery to clothes, furniture and electronics.

Disruptions in America's supply chain have thrust liner shipping, the industry's finances, and its operations into the public eye. Drawing conclusions based on pandemic headline results is not indicative of the industry or market dynamics. The following needs to be considered when reviewing the industry's profitability, pricing and alliances between carriers.

## Liner shipping is a highly competitive industry

- It is sometimes alleged that the container shipping industry is highly concentrated, thereby implying that the industry is not competitive and that customers suffer as a result. This assertion is a misconception. A large number of carriers actively compete against one another in the global marketplace and on the shipping lanes most relevant for U.S. trade.
- A commonly accepted measure to analyse concentration in markets is the Herfindahl– Hirschman Index (HHI). The HHI, which rates markets on competitiveness using a 0 to 10,000 scale, is used by competition authorities in the U.S. (the antitrust branch of the Department of Justice and the Federal Trade Commission) and in the European Union (European Commission) to determine the existing level of concentration in a given market. The higher the number, the more concentrated the market – with an HHI below 1,500 considered competitive, between 1,500 to 2,500 moderately competitive, and above 2,500 highly concentrated. The HHI for the container shipping industry serving the U.S. rates at 1,018. Moreover, comparisons using HHI show that concentrations in many other industries including wireless carriers, domestic airlines and local television broadcasts are markedly higher than in container shipping.



## Market forces are determining prices

- The market for container shipping has many price makers – carriers, freight forwarders, agents, exchanges – and as a well-functioning, transparent market is very sensitive to demand and supply changes.
- Demand for ocean transportation services into the U.S. is at a record level. Despite ocean carriers deploying all available ships and equipment, bottlenecks on land are preventing ships from unloading imported cargo and then loading exports. Ships that are forced to wait offshore to get into port are neither moving cargo nor satisfying demand – thus reducing effective supply. These and other market dynamics influence prices and are the reason why prices are what they currently are.
- Competition authorities in the U.S. at the Federal Maritime Commission and in the European Union have reviewed the industry's pandemic-driven price increases. Both entities concluded that they have not received any evidence or identified any anticompetitive behavior in relation to the price increases.

## The industry's current profitability is recent and expected to be temporary.

- The margins and profitability that the liner shipping industry are realizing today are a new phenomenon due to temporary market factors resulting from pandemic-driven disruptions. Over the past few decades, the industry struggled to cover its cost of capital. In fact, container carriers have mainly been in the red since 2010 due to supply exceeding demand in the market. Many experts predict that the industry's financial performance will fall back as the pressures on our supply chain are lessened.
- Meanwhile, carriers are working to add capacity by chartering vessels in a very tight market with some rates above $100,000 per day and investing in new ships. In a market with very variable prices, investing in a new container vessel carries quite some risk. A new container carrier costs $100-200 million depending on size, takes around three years from order to delivery, and will be working for 25-30 years.

## Vessel space sharing arrangements allow ocean carriers to provide consumers with better service at a lower cost

- Vessel sharing agreements – or VSAs – enable carriers to share vessel space on one another's ships, which increases efficiency and creates more service to more ports than would otherwise be the case. VSAs do not include pricing. Every carrier independently prices its services. Therefore, carriers in a VSA compete with each other, and with other carriers, when selling their services to customers. In addition, carriers offer and add their own services outside of the consortia to which they are a member. During the pandemic we have seen several examples of carriers adding capacity outside consortia and new players entering trades.
- Regulators in the U.S. and across the world recognize that VSAs increase service levels and operational efficiency which benefit all supply chain users.