> 'The Ocean alliance will allow its members to go toe to toe with 2M in the major east–west trades'
> **Drewry Maritime** Research

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French president Francois Hollande (right) with CMA CGM's CEO Jacques Saade (centre) and son Rodolphe Saade, its general director

2M box dominance challenged

Formation of Ocean Alliance forces all other carriers, except 2M partners Maersk and MSC, to seek groupings to join

Michael Hollmann, Germany

The liner shipping landscape is certain to change dramatically in the next year, as probably all but the two biggest box carriers join new alliances. This shuffle, forced by tight freight markets, is also likely to spark more carrier mergers and acquisitions (M&A).

Beijing's decision last year to merge its two government-owned giants, China Shipping and Coscon, was pivotal in setting the ball rolling. Given the carriers' diverging allegiances and need to clarify their positions in the liner world, a major shake-up in alliances had been predicted for months.

Key points

- The biggest uncertainty: will Korea's Hyundai and Hanjin be merged?
- A major shake-up in alliances had been predicted for months

Adding fuel was CMA CGM's agreement to take over APL; the French line was part of the Ocean 3 alliance, while APL was part of the G6 grouping. Rumours had long swirled about a new Far Eastern-dominated mega-alliance, teaming CMA CGM (France), Coscon (RPC), Evergreen (Taiwan), and OOCL (RPC, Hong Kong).

An official announcement finally said the four would team up in the new 'Ocean' alliance, jointly operating 350 vessels as of April 2017 – just in time for the next trans-Pacific freight contracting period. The new group would roughly match the operational capabilities of today's market-leading 2M vessel sharing agreement (Maersk Line and MSC).

In fact, Ocean members' current weekly east–west capacity of 283,000 teu is slightly higher than the 2M's 243,000 teu, French market researcher Dynamar pointed out. However, it noted that the difference in slot capacities is probably related to temporary service suspensions for the slack season.

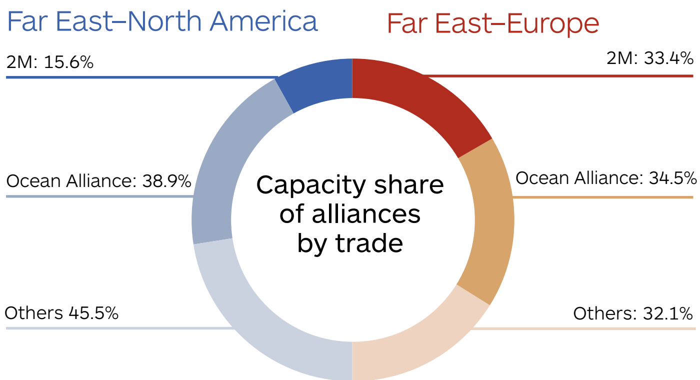
"The Ocean alliance will allow its members to go toe to toe with 2M in the major east–west trades," said London-based Drewry Maritime Research, while Danish analyst SeaIntel termed the new alliance "an even match" for the 2M.

More detailed analyses by the researchers show that 2M will be ahead on capacity terms in the trans-Atlantic trade, while the Ocean partners will dominate the trans-Pacific. In the Far East–Europe trade, 2M and Ocean will compete with market shares (in terms of deployed teu slots) of about 34% each.

Still, 2M partners appear to be ahead on economies of scale, thanks to their larger fleet of ultra large container ships (ULCSs) exceeding 15,000 teu. Hamburg's Ernst Russ Shipbroker said 2M partners control 60 of the 100 available ULCSs, while Ocean members control just 23.

Some orphan carriers remain: the remaining members of G6 (Hapag-Lloyd, Hyundai, NYK, and MOL) and CKYHE ('K' Line, Yang Ming, Hanjin), plus CMA CGM's current

350 Ships in new Ocean alliance



'Ocean 3' partner United Arab Shipping Company (UASC). Drewry cautioned that myriad possibilities remain "in terms of what the 'orphaned' carriers ... will do in response".

But Alphaliner predicted a third large alliance would emerge including G6 carriers Hapag-Lloyd, MOL, and NYK, along with UASC and perhaps Hamburg Süd.

After official confirmation of merger talks between Hapag and UASC – just one day after the Ocean partners went public – a vessel sharing agreement between the two would be the minimum to be expected. In case of an outright merger, the Germans and UASC would "base their discussions on a relative valuation of the businesses at 72% (Hapag) and 28% (UASC)", Hapag noted.

A deal with UASC would give Hapag access to six 18,000 teu-class ships which – combined with six 20,000 teu leviathans controlled by Japan's MOL – would allow the third alliance to operate at least one ULCS string in the Far East trade.

Probably the biggest uncertainty remaining is what will happen to the distressed South Korean carriers Hyundai Merchant Marine (G6) and Hanjin Shipping. Both are restructuring, so talks might produce a forced merger overseen by their major lender, Korea Development Bank.

That would represent the "most sensible outcome" and allow the merged entity to stay in the east–west trades, Alphaliner noted. Elevated to fifth place in the global liner league table, the merged entity – relieved from its current encumbrances – could be an attractive partner for a third consortium.

Cost benefits from more M&A would be even greater than for alliance partnerships. "The new reality of low freight rates and consolidation has arrived, and it forces shipping companies to further reduce costs," Guenter Kuhberg of Worldwide Consultants in Logistics said. "Actually, the focus will now be on reduction of land-based costs, which is usually the prime objective when shipping companies merge."

Consolidation will force shippers to adjust freight programmes. Some liner organisations would disappear and schedules would change but the process should be smooth. Kuhberg said he expects "no severe consequences for shippers because such development have happened before".

Non-vessel-operating common carriers would meantime benefit if the number of alliances fell from four to three. "Theoretically they would need just three carrier contracts – one carrier per alliance – to cover virtually all services," Kuhberg said.

Major global shippers agree that consolidation among liners must pick up, explained Bjoern Klippel, managing director of Tim Consult. The Mannheim-based company runs a freight benchmarking web covering 7 million teu/year of contracted ocean cargo.

Its members said in a poll they expect 80% of global slot capacity to be in the hands of 10 carriers by 2020, from today's 14; alliances were expected to drop from four to three.

Tim Consult saw investors and lenders of liner shipping in the driving seat. "The industry has no choice because investors are losing patience," Klippel said. "If there is no market consolidation, there is going to be no money."

The impact on the supplier side – especially terminals and the charter market – could be severe. Fewer bigger alliances mean that carriers would need to co-operate even more to maximise the utilisation of large vessels.

Brokers worry that adding tonnage in the sector might prolong the demand slump in today's charter market. Port and terminal calls are likely to be redistributed as the new alliance partners streamline their diverging terminal contracts or shareholdings.

"One thing is certain: not everybody can win," pointed out Dynamar consultant Dirk Visser, who added that compromises might be needed that "may not always serve efficiency". ■

APL's VLCS tonnage tops up new alliance's capacity – APL Sentosa

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