

End of Europe's exemption for ship alliances adds to tough market conditions

Europe's planned termination of the so-called 'block exemption rule' that enables container liners to closely cooperate within alliances will limit room to manoeuvre. This particularly applies to the container liners outside of the largest players, and adds to already challenging market conditions



Europe plans to end the anti-trust exemption for container alliances

The European Commission has announced it will not extend the block exemption for container liners which expires 25 April 2024. This exemption enabled container shipping companies with a combined market share of up to 30% to provide joint services to clients, and resulted in the formation of three large alliances, 2M (Maersk, MSC), The Alliance (Hapag-Lloyd, HMM, Ocean Network Express and Yang Ming) and The Ocean Alliance (CMA CGM, Cosco, OOCL, Evergreen), as

companies sought to manage capacity and share their networks. Sector-wide, there are many more cooperations.

The exemption in the cyclical container liner market was first introduced during the global financial crisis in 2009 and extended in 2014 and again in 2022. In the early stage of the pandemic - when container liners suffered unprecedented uncertainty - the regulation was again extended. But with consumers stuck at home shifting their spending to goods, and ports and supply chains across the world congested due to closures and events such as the blockage of the Suez Canal, freight rates skyrocketed, and profits reached record highs in 2021 and 2022. This sparked criticism around the rationale for the exemption among shippers and policymakers.

The golden age in container shipping has ended - but the market structure has also changed

Container rates have collapsed since early 2022 and spot rates on Asia to Europe trade have dropped below pre-pandemic levels. The sector has also faced a combination of faltering demand and a flood of newly ordered vessel capacity coming online. However, the European Commission has acted in light of what it sees as structural market changes. There has been consolidation. And on top of this, several liner companies including Maersk, CMA CGM and MSC have actively taken stakes in port terminals, logistics services providers and even air freight services over the past two years. With this 'integration,' these companies have developed a presence across supply chains and an ability to offer end-to-end logistics solutions.

End of the exemption makes offering joint services and capacity management more difficult

The expiry of the block exemption means that cooperation in terms of joint services will be restricted and managing capacity (by for instance taking out ('blanking') sailings) will be more difficult. For some container liners, it will also be more difficult to offer specific port calls to clients and they may reconsider their focus. Profits in container shipping have been on a downward track from elevated levels since the second quarter of 2022. Global container volumes have been falling this year and are expected to grow only slightly in 2023 amid global headwinds for trade. At the same time, the market is set to be flooded by a wave of new vessels coming online (TEU-capacity will be expanded by some 27% in 2023-2025) making the conditions in container shipping more challenging.

Alliances won't (necessarily) cease to exist, but room to manoeuvre will be more limited

The EU and US have followed the same approach regarding the exemption, with the ruling also under review in the US. Either way, the EU is already part of large trade routes and the lifting of the exemption will limit the room to cooperate and weigh on market conditions, especially for pure container liners. MSC and Maersk decided earlier to dismantle their cooperation, possibly because market leader MSC has become big enough by itself. The other alliances won't necessarily cease to exist, but legal clarity is reduced and there will probably be a higher regulatory burden for joint operations under general competition rules.

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