

No more liner conferences – how will we cope?

Chris Bourne

18 May 2006



BASLE







What is the European Liner Affairs Association?

ELAA was set up in May 2003 as a single issue organisation when the Review of Regulation 4056/86 was announced.

Our Membership consists of the world's major liner shipping companies.

And the ELAA staff is ?

Members of ELAA

APL, ACL, China Shipping, CMA-CGM, COSCO, CSAV,
Evergreen, Hamburg Sued, Hanjin, Hapag Lloyd,
Hyundai, K Line, Maersk Sealand, MISC, MSC, MOL,
NYK Line, OOCL, UASC, Yang Ming, Zim

Board of ELAA

Mr Jacques Saade – CMA CGM (Chairman)

Mr Olav Rakkenes – ACL (Vice Chairman)

Captain Yang Bin – COSCO

Dr Klaus Meves – Hamburg Sued

Mr Ulrich Kranich – Hapag Lloyd

Mr Knud Stubkjaer – Maersk Sealand

Mr Gian Luigi Aponte – MSC

Mr Minoru Sato – NYK Line

Mr Ken Bloch Soerensen - UASC

The liner industry is accused of

- Price Fixing
- Colluding
- Hanging on to the Past

The truth is we are ...

- ... Entrepreneurs
- ... Highly competitive
- ... Massive investors
- ... Innovators
- ... Responsive to Change

We have made the global economy work – without us there would be no global economy

- Between 1 January 2006 and 1 January 2010

- 168 ships of 7,500 TEU and over will be delivered

- Total Container Slots will increase from 8.2 million to 12.8 million in the same period

- 14.7% p.a. increase

Our proudest achievement is that we have coped with the dramatic increase of world trade with a minimum of fuss

And our conferences have changed as well

- Conference tariffs hardly exist
- No inland tariffs
- Individual service contracts between individual customers and individual carriers
- Yes we do have conference surcharges and ancillary charges but some customers like them

Even more will change with the abolition of Regulation 4056/86

- Conferences will go in trades to/from Europe
- And with them:
 - Conference Business Plans
 - GRIs
 - Conference surcharges and ancillary charges
- BUT BEWARE the market will be come less orderly and more volatile
- We will become more like tramp shipping

And this is good

- Globalisation cannot work with a conference tariff
- Application to conferences for rates is crazy in today's world
- Having no inland tariffs has meant that base port equalization is no longer necessary
- Individual Service Contracts are what most customers require and the lines support

- Some Shipping people have an emotional attachment to conferences but no one really believes they will be retained for Europe based trades
- Some shippers and regulators are also emotional against Regulation 4056/86 – shippers' bodies will not engage with us
- What we need to concentrate on is the new regime as this will set the framework for years to come in Europe and perhaps even for the rest of the world
- Conversations should be between lines, customers and regulators

- The competition authorities must be alive to the risks and dangers in our key industry
- We are expected to invest billions
- There are immense risks:
 - Will trade continue to grow?
 - Is the trade deficit in the US sustainable?
 - Could the US become protectionist?
 - Will Europe keep spending?
 - Will China remain politically stable?

How will we cope? Our mindset needs to change

- Change away from regulation to the needs of a knowledge economy
- Knowledge enhances competition

The industry needs information

- We propose comprehensive volume database showing volumes moving between the major ports in trades moving to/from Europe

Why?

- Without conferences the main source of volume data for trades to/from Europe will cease (except US related)
- Port/port statistics with some aggregation – only available alternative is to convert customs revenue data – this is inaccurate
- Both shippers and lines would have a better understanding of how the market is working, where there is growth ... where there is opportunity ...
- Better basis for assessing supply and demand going forward
- This has no effect on market prices. Prices are wholly dependent on forward supply and demand

The industry needs a price index

- A simple rolling three monthly price index by trade direction
- Shippers, shipping companies, consultants and governments need to know the trend

The industry needs

- To give and agree with shippers
 - What is included in THCs
 - How shipping costs are effected by bunker increases
 - How currency fluctuations impact our business
- These will not lead to “conference charges”
 - they just improve everyone’s knowledge

The industry needs consultation on supply and demand

- Improved and more definitive projections of supply and demand
- This is the basis of a market economy

Supply and Demand Forecasts

- So many organisations produce supply and demand forecasts:
 - Drewry, Clarksons, Dynamar, ...
- But mistakes are made - weakness is particularly on demand side due to lack of good volume statistics
- The need for accurate forecasts is crucial for the wider shipping industry to ensure:
 - Enough construction – but not too much
 - That container ships are operating in the right trade
 - That there is sufficient capacity on a trade
 - That the correct port calls are made
 - Infrastructure planning
- Industry experts would be used

Meetings between carriers and shippers

■ Meetings:

- Lines want to have regular discussions on trade developments including supply and demand
- So as to improve our collective knowledge on a trade
- So as to gain a collective view of the future of our shipping business
- Because the consequences of getting it wrong could be serious to the global economy
- We need to do this with our customers

Bottom Line: We need

- The help and support of our customers and their organizations
- We will give them access to our information
- We will listen to what they say is happening in the market
- We will listen to their needs

The world revolves around the
knowledge economy;

We don't collude now, we compete

Our supposed instrument for collusion is
the conference system

... but this is being abolished;

Without conferences we are
facing a world of instability

- in rates
- in supply



Do you want this?