



Maersk and Hapag-Lloyd containerships berthed in Hamburg.

A catalyst for Australian shipping competition reform

Paul Zalai of the FTA and APSA looks at vessel sharing arrangements and the recent announcement of the Gemini Cooperation

FREIGHT & TRADE ALLIANCE

and the Australian Peak Shippers Association met with Treasury's Competition Taskforce executives calling for reform to Australian competition law in an environment where international shipping lines have significant bargaining power through consolidation and organisation into global alliances.

While vessel sharing arrangements can bring benefits, namely economies of scale and co-ordination across a global network, FTA and APSA raised concerns with the Taskforce that increased concentration of the shipping industry combined with the exemptions from Australian competition law provided by Part X of the Competition and Consumer Act, has the potential to lead to control of available capacity and to artificially elevate freight rates, surcharges and landside logistics costs.

PART X – A FAILED SHIPPER PROTECTION

APSA has negotiation rights, being the peak body as designated by the federal minister of infrastructure and transport, to protect the interests of Australia's cargo owners and shippers in respect to shipping and international logistics services. However, these provisions have failed to give confidence to exporters, importers and freight forwarders of adequate protections from potential anti-competitive practices.

Similarly, the European Commission explained its recent decision not to renew the Consortia Block Exemption Regime (CBER), as it did not deliver efficient services, which are the basis for such protection, especially during the two years of the covid crisis.

FTA and APSA reinforced with the Taskforce the position made in our formal submission on 11 February 2022 to the

Productivity Commission's review of Australia's maritime logistics systems recommending the repeal of Part X.

A GLOBAL DEVELOPMENT – THE GEMINI COOPERATION

In January 2024 Maersk and Hapag-Lloyd announced the establishment of the Gemini Cooperation, slated for February 2025. The new long-term operational collaboration has the stated ambition to deliver a flexible and interconnected ocean network with industry-leading reliability.

It is the first significant change in alliance arrangements for several years and comes at a time of great market uncertainty for the container shipping industry, compounded by the disruption currently being caused by hostilities in the Red Sea and drought impacts on the Panama Canal.

The Gemini announcement should be seen by shippers and regulators as a positive initiative demonstrating that VSAs will continue without shipping lines having protections from EU competition law.

Importantly, the Gemini announcement shows that consortia are alive and well despite the ending of the CBER on 25 April 2024.

The European Commission will feel vindicated that two of Europe's biggest shipping lines will be commencing a new VSA nearly a year after the CBER will have expired. It also confirms the Global Shippers Forum (GSF) position that the efficiencies of VSAs for shipping lines far outweigh any additional burden of complying with general EU competition law and that ending the CBER would not be a block on future consortia arrangements.

PRIORITY SERVICES AND WINDFALL OF PROFITS

It is encouraging to see in the Gemini announcement that a priority will be given to standards of service and customer care.

Indeed, it seems this is intended to be a differentiator in the market. We will wait to see exactly what that means for shippers, but a greater focus on customer service was predicted by GSF as a necessity for shipping lines venturing into offering a door-to-door service, where the emphasis

has long been about providing solutions to customers, rather than just surcharging them for unexpected problems.

It is ironic, though, that the Gemini announcement was made on the day that the excessive scale of the Red Sea surcharges is being exposed, with lines, including Maersk and Hapag-Lloyd, being predicted by analysts to enjoy a "windfall" profit because additional revenue raised from surcharges and higher rates is exceeding the costs of any detour.

Tackling the scourge of surcharging in the liner shipping industry should be a priority for any customer-focused carrier.

WILL DECARBONISATION BENEFITS FLOW TO SHIPPERS?

Gemini's focus on decarbonisation is also welcome as this is, and will increasingly become, a critical issue for all parties over the life of the co-operation. What shippers will want to hear is how the savings made in vessel and shoreside emissions by the carriers (their scope one and two emissions) will be communicated to customers, so that shippers can bank those savings as reductions in their own supply chain emissions (or scope three emissions).



Paul Zalai, director, Freight & Trade Alliance; secretariat, Australian Peak Shippers Association

Furthermore, will shippers be expected to fund this transition in real-time through higher rates and surcharges? Or is there a prospect of additional investment being secured that smooths the transition for customers and carriers over the lifetime of the new zero-carbon assets?

IMPLICATIONS FOR AUSTRALIAN TRADE

Overall, the Gemini announcement should be seen by shippers and regulators as a positive initiative demonstrating that VSAs will continue without shipping lines having protections from EU competition law.

Following the lead of the EU, the UK's Competition and Markets Authority handed down a final decision on 9 February 2024 recommending removal of shipping line competition protections, also effective 25 April 2024. We expect the Australian government will be encouraged by these developments, watch the Gemini introduction with interest and have increased confidence to follow the EU's lead with the necessary repeal of Part X. ■

MAERSK AND HAPAG-LLOYD JOIN FORCES

■ In January 2024 Maersk and Hapag-Lloyd announced the establishment of the Gemini Cooperation – a partnership comprising a fleet pool of around 290 vessels with a combined capacity of 3.4 million TEU. Many of the vessels would be ready to adopt cleaner fuels.

The long-term collaboration is due to begin in February 2025. Hapag-Lloyd's move to join the partnership would see it leave THE Alliance at the end of January that year.

During 2024, Maersk and Hapag-Lloyd intend to plan the transition from their current alliances to the new operational co-operation.

As a part of the agreement, the two companies outlined a target of achieving schedule reliability of above 90% once the network is fully phased in.

The companies also anticipate improved transit times in many major port-to-port corridors and access to well-connected ocean hubs.

"Teaming up with Maersk will help us to further boost the quality we deliver to our customers," Hapag-Lloyd CEO Rolf Habben Jansen said in a statement in January 2024.

"Additionally, we will benefit from efficiency gains in our operations and joint efforts to further accelerate the decarbonisation of our industry, he said."

The co-operation would cover seven trades, namely Asia/US West Coast, Asia/US East Coast, Asia/Middle East, Asia/Mediterranean, Asia/North Europe, Middle East – India/Europe and trans-Atlantic.

Gemini Cooperation would comprise 26 mainline services. The mainline ocean services would be complemented by a global network of dedicated shuttles centred around owned and/or controlled transshipment hubs.

Both companies plan to provide dedicated operational teams to manage the collaboration.



Rolf Habben Jansen, CEO, Hapag-Lloyd