Strategic Alliance in Container Liner Shipping After P3 Failure

Recently two shipping alliances were created; one is the 2M container shipping alliance between Maersk Line and Mediterranean Shipping Co (MSC), and the other is the O3 container shipping alliance formed by CMA CGM, China Shipping Container Lines Co. and United Arab Shipping CO.

French container carrier CMA CGM is partnering with China Shipping Container Lines Co. and United Arab Shipping Co. to form the new Ocean Three alliance, also called O3 alliance. It is said that 150 vessels will be deployed by this alliance. The alliance signed the vessel sharing agreement (VSA) which would be applied to trades involving a combination of vessel-sharing, slot exchange and slot charter, covering the Asia-Europe, Asia-Mediterranean, trans-Pacific and Asia-US East Coast. It is said that seven of the world’s top 10 business container ports are in China, although Chinese shipping carriers accounted for less than one-third of the market share. As such China Shipping Container Lines Co. teaming with other container lines signals positively that Chinese shipping carriers are also starting to expand their market share through vessel-sharing.

Previously, CMA CGM proposed to partner with Maersk Line and Mediterranean Shipping Co. to form the P3 Network, but this scheme failed. Recently, CMA CGM’s two proposed partners announced a new alliance call 2M alliance. The proposed 2M alliance is a 10-year vessel sharing agreement between Maersk Line and MSC on the Asia-Europe, transatlantic and transpacific container trade lanes. The 2M alliance will encompass 185 vessels with a capacity of 2.1 million TEUs deployed on 21 strings. Currently, the 2M alliance is approved by the U.S. regulators, while the O3 is still pending approval from the U.S. regulators.

Definitely we are moving into a brand new era of strategic alliance in container shipping line with some of big players being regrouped with the others in order to increase their market share. For the time being, with the wave of formation of such alliances, four large scale carriers from the top 20 carriers in the world will take control of more than 90% of the global market share. Apart from the 2M and O3 alliances, the other two are the G6 and CKYHE alliances. The G6 carriers are American President Lines, Hapag Lloyd, Hyundai Merchant Marine, Mitsui, Nippon and OOCL. CKYHE carriers are COSCO, K-line, Yang Ming Line, HANJIN and Evergreen.

As can be seen from Figure 7, the G6, 2M and CKYHE alliances dominate the East-West trade lanes with a total market share of 80%. While the 2M alliance dominates the Euro-Far East trade route, and G6, CKYHE and O3 alliances equally have around 20% of the market share. For the Trans-Pacific trade route, the G6 and CKYHE alliances clearly have the advantageous market share, with each of them accounting for more than 30% of the trade route. The 2M alliance, however, shows its competitive advantage on the Trans-Atlantic trade route by occupying 40%
of the market share on this route, and only the G6 alliance can compete with it by taking 38% of the market share.

**Figure 7. Market share controlled by 2M, O3, G6 and CKYHE alliances on global trade lanes**

As a result of the formation of strategic alliances, the pursuit of big ships is entering into a new period as well. Strategic alliances and big ships play a significant role in better allocation of resources, further reduction of operational costs, expansion of service coverage, optimization of ports of call and realization of the economies of scale. With regards to the vessel size, O3 has a more advantageous investment in the fleet capacity building compared with the G6 and CKYHE alliances. It is said that members of the O3 alliance own 20 vessels with capacity from 16,000 to 19,000 TEUs. Hence, forming strategic alliance is the key to making greatest use of those big vessels and benefiting from the economies of scale. Only through this can the carrying capacity of the whole industry be further integrated.

Finally, it is hard to predict how long it will take to complete the process of integration. What is surely happening is that the era of strategic alliance is arriving.