Ocean carrier alliances and the impact on container freight rate

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**ABSTRACT**

Container shipping is widely known as the most cost-effective means of transporting manufactured goods worldwide. However, the current dynamics of the shipping market which started around Q2 of 2020 due to COVID-19 disruption of global supply chain seems to be eroding this inherent benefit of Liner shipping. This study seeks to establish that whilst the outbreak of COVID-19 and disruption of global supply chain may be unplanned, blanking of sails by ocean carriers is planned. Explanatory research method was adopted for the study while market power served as the explanatory framework. Consequently, the study identified indicators of market power that reveal the stronghold of carrier alliances influence in the container shipping market. The study discovered as follows: (i) carrier alliances are critical part of modern shipping and evolving, (ii) skilful capacity management is the New Normal in container shipping, and (iii) final consumers bear the economic brunt of freight rate increases.

**Introduction**

Shipping is a global industry with a history of continuous change and unpredictable market cycle, yet the most cost-effective means of transporting goods world-wide. Stopford (2009) captured the shipping market cycle thus:

As far as shipowners are concerned the cycles are like the dealer in a poker game, dangling the prospect of riches on the turn of each card. This keeps them struggling through the dismal recessions which have occupied so much of the last century and upping the stakes as the cash rolls in during booms. As one shipowner put it: ‘When I wake up in the morning and freight rates are high, I feel good. When they are low, I feel bad’. Just as the weather dominates the lives of seafarers, so the waves of shipping cycles ripple through the financial lives of shipowners.

According to Haralambides (2019), “shipping is a global service industry, that by general recognition, provides the lifeline of international trade. Suffice it to say that, due to the morphology of our planet, 90% of international trade takes place by sea.” In addition, “technological developments in ship design and construction, and the ensuing economies of scale (EoS) of larger ships, have reduced trade and transport costs, thus promoting trade (particularly that of developing countries) by making the transportation of goods over long distances affordable (Haralambides, 2019).” This economic reality of global trade and international shipping is currently uncertain due to COVID-19 disruption of supply chain, over concentration of global container shipping in tripod alliance (2 M Alliance, Transport High Efficiency – THE Alliance and Ocean Alliance), China’s dominance in international market, port congestion and consequent economic implications for shipping industry. According to Hickin and Griffiths (2020), in 2017, a fragmented container shipping sector fortuitously began to consolidate. This culminated in the creation of three key alliances encompassing more than 80% of the market. Heavy weights APM-Maersk and Mediterranean Shipping Company (MSC) joined forces as part of the 2 M pact. CMA CGM, Cosco and Evergreen formed Ocean Alliance, while another set of players including Hapag Lloyd, ONE and Yang Ming created THE alliance. As was further recorded by Hickin & Griffiths, “when the pandemic started to hit global trade in March, these alliances were able to move quickly and decisively to reduce overcapacity and prevent a sharp drop in freight rates.” Collectively, they have voided, or “blanked” more than 400 sailings this year – removing 10% of nominal twenty-foot equivalent units (TEU) capacity from active service. Below is an illustration of the Ocean Shipping tripod alliance.

**Table 1** shows that as at 2 April 2021, the total ships operated by the Alliances is 3, 200 while total TEU (capacity) is 20,160,596. The number of new ordered ships was 187 with a capacity of 2,458,587. This estimation is not whole and total as some member vessels of the alliances do not operate solely within the alliances. The estimation only depicts the size and influence of the alliances over seaborne trade.

According to Lauriat (2021), collectively, the 2 M Alliance, THE Alliance and Ocean Alliance deployed “3,126” vessels with over 20 million TEUs capacity.
This total represents around 80% of the capacity of the containership fleet and an even higher percentage of the line haul capacity. By August 2021, Ocean carriers have doubled their order for container ships due to freight rate boom and booming revenue. According to Sand (2021),

as a result of very healthy shipowner bottom lines and carriers experiencing a lack of tonnage, 619 container ships are now on order for future delivery. Of those, 381 have been ordered in 2021 alone and never has 3.44m TEU been ordered in such a short time span. Still, it’s not a record for the total orderbook, as 6.8m TEU were on order by the end of July 2008, compared to 5.3m TEU by late-August.

Without doubt, COVID-19 Pandemic is the trigger of the current global container shipping crisis. Beyond the fact that COVID-19 is the trigger, the role of carrier alliances in global container shipping is strategic in managing the container shipping crisis. Therefore, this study is an attempt to examine the impact of carrier alliances on freight rates.

Method of research

Explanatory research method was adopted for the study. It is a “cause and effect model of research investigation that relies on secondary data. Books, Journals, institutional, and on-line publications on ocean carrier alliances and freight rate were the sources of data for this study. Quantitatively, simple percentage was used to illustrate figures and tables used in the study.

Ocean carrier alliances

According to International Forum Transportation – ITF (2018), global alliances – also called strategic alliances – are cooperation agreements on a global scale between liner shipping companies, which have become a dominant feature of container shipping over the last few years. In other words, carrier alliance (also known as shipping alliance) is basically the pooling of ships (generally the same type of ships) by various carriers with the goal of running regular style liner services (Lauriat, 2021). In simple terms, a Shipping Alliance (also known as Ocean Alliance) is a group of ocean carriers joining forces to create a cooperative agreement forming a strategic alliance covering various trade routes through cooperation between its members on a global level (Carnarius, 2017). According to Haralambides (2019), alliances are technical cooperation agreements among carriers that, opposite to conferences, do not engage in price-fixing. While carriers cooperate in pooling and sharing resources (ships, equipment, terminals, networks) under conferences, profit maximization is pursued through price-setting, but under alliances, the same objective is pursued through better cost control. On the account of Garland (2020), global alliances are strategic cooperation agreements between major linear shipping companies around the world and a critical part of modern shipping. Their arrangements allow carriers to avail of economies of scale and economies of scope, which are essential components of efficiency in a cross-continental industry. By combining both physical resources and service offerings, carriers can increase revenue, extend their coverage, and experience benefits across a variety of operations. Thus, collaboration reduces high fixed-costs, making shipments more cost-effective.

From organizational perspective, it is the service schedules within the big three ocean carrier alliances that provide the framework for the global supply chain. The real structure of the global supply chain resides in the ocean carrier alliances (Lauriat, 2021). This according to Lauriat is not new because in various forms, ocean carriers have been cooperating in scheduled services or defined trade lanes for centuries. In some ways, the new generation of shipping alliances is
the successor to the shipping conference system of the 1880s.

Generations of alliances
Since the first alliance was established in 1996, there have been four generations of alliances (Ajdin, 2021)

Table 2. Four generations of global alliances in container shipping.

| Generation | Alliances                          | Period        | Characteristics                                                                 |
|------------|------------------------------------|---------------|---------------------------------------------------------------------------------|
| First      | Global, Grand, Maersk/Sealand       | 1996–1998     | The first generation consisted of three core alliances: Global, Grand, and Maersk/Sealand. While their intentions were big, they lacked stability, causing the first generation to fail. |
| Second     | New World, Grand, CKHY              | 1998–2012     | The second generation was a lot more stable and lasted 14 years. It also included three core alliances: New World, Grand, and CKHY. These alliances differed structurally to those of the first generation as they generally combined one primary carrier with several smaller carriers. |
| Third      | G6, CKHYE, 2 M, O3                 | 2012–2017     | With the third generation of alliances came the first mega-ships. These are enormous ocean carriers aimed at maximizing shipping volume among the major shippers. The main alliances formed throughout this period were G6, CKHYE, 2 M, and O3. They were able to consolidate on a scale like never before. |
| Fourth     | 2 M, Ocean alliance & THE alliance. | 2017–?        | The larger-scale consolidation and the use of mega-ships brought about the beginning of the fourth generation of alliances. The fourth-generation alliances are 2 M, Ocean alliance and THE alliance. No alliance has a single dominant carrier, making them significantly different from previous generations. |

Sources: ITF (2018) & Garland (2020).

Table 3. Monthly global Blanked and skipped sailings 2020–2021.

| Vessels Blanked | Jan 2020 | Feb 2020 | Mar 2020 | Apr 2020 | May 2020 | June 2020 | July 2020 | Aug 2020 | Sept 2020 | Oct 2020 | Nov 2020 | Dec 2020 | Jan 2021 | Feb 2021 | Mar 2021 | Apr 2021 | May 2021 |
|----------------|---------|----------|----------|----------|----------|-----------|-----------|----------|-----------|----------|-----------|-----------|----------|----------|----------|----------|----------|
| 72             | 221     | 140      | 164      | 263      | 189      | 144       | 103       | 99       | 134       | 89       | 116       | 108       | 139      | 156      | 115      | 122      |

Source: Placek (2021)

In terms of carrier alliances, it is the ability to adjust vessel supply or capacity supply in relation to cargo demand to curtail overcapacity and maintain freight rate level at acceptable profit margin. This has come to be popularly known as “blank sailing” otherwise referred to as Capacity revolution, discipline or management within container shipping industry. It was partly the result or consequence of over a decade of overcapacity supply and low freight rate suffered by ocean carriers. Besides a fantastic year for ocean liners in 2010, the market overshoot because everybody ordered, which led to 10 years of oversupply (Miller, 2021a). According to Carlsen (2020), the current rates are largely the result of container lines blanking voyages on a large scale in spring when the pandemic first broke out on a global scale. This was done to adjust capacity to reflect the decline in demand. But when consumption did not drop as much as expected, and subsequently soared, the market has seen widespread capacity shortages – causing rates to soar.

The plan by ocean liners to tame shipping cycle, manage overcapacity and exploit the industry had been on but the opportunity struck earlier than expected as a result of the outbreak of COVID-19. According to Baccelli (2021), after more than a decade of overcapacity pressures, the industry has gone through a radical consolidation through mergers, acquisitions and alliances in the period 2015–2019. The extreme consolidation and container market share of Over 80% were obvious manifest market power of the carrier alliances in the container shipping industry.

Indicators of market power
There are a number of factors that indicate market power. However, a few of them that are relevant to container shipping industry are expatiated below:
(1) **Ability of companies to make above “normal profit”**: This is currently self-evident among carrier alliances. According to Longley (2021), “in a sign of just how profitable the industry has become, CMA CGM SA – the world’s third largest carrier – said it is freezing its spot rates to preserve long-term client relationships. In other words, the company is turning away profit”. No, they can’t turn away profit; it’s rather a marketing strategy for consolidating their customer base and attracting new ones. According to Lennane (2021), in March 2021, we thought rates were toppy . . . but now the lines are making money hand over fist.”

(2) **Product differentiation**: Ocean carrier alliances have been able to carve out a niche in the container shipping market through Economies of scale and Economies of scope when compared to non-alliance carriers. Their market share is uncommon and extensive. For instance; in the third quarter of 2020, the major container carriers were active in hundreds of consortia covering 194 different trade corridors worldwide (Teodoro, 2021). Alliances have created service differentiation due to limited or lack of alternative choice of service and consequent unsatisfactory services to shippers due to reduced bargaining power.

(3) **Competitors in the market**: Given the current oligarchic nature of the current carrier alliances, other carriers outside the alliances lack the capacity to compete effectively in the container shipping market. Therefore, the alliances dominate the container shipping market. The implication is that the non-alliance carriers may in the long-run, run out of competitive steam; and to remain in business such a carrier will have no other choice than to join an alliance. In many markets, including Canada and the United States, they (carrier alliances) are exempted from competition laws (Pratt, 2021). According to Garland (2020), it’s likely that the increased market power of alliances has led to industry barriers and an unfair marketplace; for instance, ‘there’s an increasing gap between the alliances and the rest of the competition. All eight carriers within the alliances have experienced considerable capacity growth. In contrast, the lower-ranked carriers are downsizing. Small and medium-sized carriers may be forced into further consolidation to survive while the industry leaders continue to grow. In the current market, it seems entry barriers will maintain the gap between alliances and smaller carriers.

(4) **Elasticity of demand for ocean carrier services**: There is little or no alternative to the services of ocean carrier alliances, as such, level of freight rate notwithstanding, shippers will persistently demand their services.

(5) **Pricing power (Freight rate fixing)**: One of the evidences of market power is price fixing especially when the company offers distinguished product or services. In the case of carrier alliances, it is freight rate fixing. The significant consolidation of ocean liners before COVID-19 disruption enabled them to maximally exploit the situation by fixing freight rates to over 200 to 300% above pre-pandemic level and manipulating capacity supply against cargo demand in order to stabilize rates against decline in demand, thereby keeping freight rates in control. According to Peng (2021), though global shipping costs started to grow in 2020, if you compare today’s shipping charges with a year before, you will find they have increased by about 360%. According to Freightos in Plimmer and Dempsey (2021), the snarl-ups in supply chains are reflected in a surge in shipping costs: the average global price of shipping a 40foot container is now close to $10,000, three times higher than at the start of 2021 and almost 10 times pre-pandemic levels. Much as a number of factors beyond market power contributed to freight rate increases, our concern is the contribution of ocean carrier alliances and the impact on freight rate.

**COVID-19 the main trigger of the global supply chain crisis**

**COVID-19 Pandemic**

It is open knowledge that COVID-19 is the trigger of the current global supply chain crisis of which the structure resides in the ocean carrier alliances. For now, the world has not been able to rein in COVID-19; rather, it has continuously kept mutating into different variants and with the emergence of COVID-19 Omicron, we are witnessing another round of lockdowns and international travel restrictions. According to Drewry (2021), the new variant Omicron is spreading across the globe and a new study suggests that it is over four times more transmissible as compared to the previous Delta variant. As was projected last month, this variant has already started crippling supply chains, with lockdowns in China and the shippers avoiding South African ports among other factors. Drewry expects rates to grow on most lanes in January due to the Chinese New Year in early February and issues caused by COVID-19. The head of research, Freightos Group noted that the recent outbreaks of COVID-19, including the Omicron variant, in China’s Zhejiang province could cause further disruptions to the supply chain and increase the pressure on rates (Wackett, 2021a). For instance; the average long-term deals
coming in for Asia-North Europe signed in the past three months, was $11,900 per 40 ft – representing a considerable increase on 2021 contracts and includes a large range of offers. In this circumstance, shippers need to decide whether they have any real alternative to agreeing to these record high rates (Wackett, 2021a). Indeed, 2021 is a year of COVID-19 variants and milking the freight rate cash cow (Wackett, 2021b). Supply Chain Advisors (2021) also submitted thus:

with the recent rapid spread of Omicron, supply chain exposure to disruption and market volatility will remain high in 2022, a repeat of the scenario played-out this past year seem likely to reoccur in 2022. As a result, we anticipate extended turnaround times and further congestion at port and terminals and advise cargo-owners to prepare for yet more delays and a continuation of high transportation costs.

So, the supply chain crisis is far from being over. According to De Ricqlès (2021), the prospect of a return to the world as it was before the pandemic is receding as new variants of the virus emerge and lockdowns are lifted and then re-imposed. In the absence of a global approach rather than one based on zones or hemispheres, it looks impossible to bring the pandemic under control. Therefore, businesses need to learn to live with this uncertainty. Furthermore, the United Nations Secretary-General, António Guterres on 29 December, called on countries of the world to prepare for the next pandemic as COVID-19 will not be the last (Onyedika-Ugoeze, 2021). It therefore implies that if the end to COVID-19 is not in sight, much like the induced supply chain crisis, invariably there is no end in sight to the disruptions and increases in freight rate. Put differently, as far as COVID-19 continues to mutate into variants, and the supply chain continues to experience back and forth disruption due to intermittent lockdowns, carrier alliances will likely continue to calibrate capacity supply against cargo demand to keep freight rate favourable.

The impact of ocean carrier alliances on freight rate

(I) Increases in freight rate: As was earlier indicated in this study, the motivation for carrier alliances is profit maximization. As such, they exploited the opportunity provided by COVID-19 crisis and employed every tactic that could enable them to keep increasing freight rate as much as possible. The experience of East – West trade lane is very critical in this regard because while the carrier alliances control about 80% of global container capacity, it controls about 95% of the East – West trade lane. According to white House Briefing Room (2022), beyond price increases, several specific business practices of many large ocean carrier companies are hurting American businesses and farmers because of their market power. These alliances are able to cancel or change bookings and impose additional fees without notice. These unpredictable practices undermine American business’ ability to deliver orders on time. Interestingly, these unpredictable practices were not limited to East – West trade lane. Other unfair trade practices by the alliances targeted towards freight and profit increases acknowledged by White House Briefing Room includes but not limited to:

(i) All too often, ocean carriers are effectively refusing to take American exports altogether, preferring to speed back to China with an empty ship to make a quick turn-around rather than transport American exporters’ cargo or dock at American ports;
(ii) The carriers have also continued to pursue practices that directly contribute to port congestion, such as imposing “box rules” that require truckers to use only certain trailers to haul their containers – thus forcing truckers to wait for the “right” kind of trailer to become available. That leads to lower pay and longer wait times for America’s truck drivers, who get paid per box, and allows the ocean carriers to generate even higher detention and demurrage fees.

In corroboration, Dean (2021), noted that the main source of skyrocketing revenue for the carrier alliances is freight fees. The reported earnings of Maersk in Q3, 2021 was a case in point; “Maersk reported record earnings in Q3, 2021 as revenue grew by 68 percent to $16.6 billion. In ocean segment, third quarter revenue almost doubled to $13.1 billion from $7.1 billion in 2020, when freight rates were already recovering from COVID-19 shutdowns. Ocean EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization) increased by $4.4 billion to $6.3 billion and EBIT (Earnings Before Interest, and Tax) improved by $4.4 billion to $5.3 billion (Schuler, 2021). The reality is that even if the increase in freight rates comes to an end, it looks certain that rates will stabilize at high levels (De Ricqlès, 2022).

(ii) Freight rate control: Blank sailing is a major freight rate control mechanism. In view of the current structure of carrier alliances; shippers have become price takers (freight rate takers) due to limited alternative service channels. The stronger the alliances, the less competitive the container shipping market will be. Put differently,
the greater the alliance, the greater the concentration, consolidation and control of container shipping market. For Liners such as 2 M alliance, the essence is to further improve stability for customers and predictability for effective supply chain planning (Karamalegkos, 2021). On the other hand, consolidation and predictability of the container shipping market enables the carrier alliances to swiftly adjust to disruptions, demand and supply dynamics and control of freight rate. The essence of the control is to continuously maintain a relative profit margin and increase freight rate whenever circumstances through up new opportunity. It boils down to stabilization of the current freight rates and the possibility of future increases of the rates due to the weak bargaining power of the shippers and unforeseen environmental or political crisis.

(iii) Return of Freight Rate to Pre-Pandemic Level is no Longer Feasible (at least not in the short term): After an exceptional financial year in 2021, the shipping companies want and seem to hold all the cards they need to do even better in 2022. You don’t change a winning formula … (De Ricqlès, 2022). Principal among the cards of the carrier alliances are huge investment in digitalization and E-commerce; and blank sailing which in this study is referred to as skillful capacity management. De Ricqlès further noted; that the shipping companies are also in a position to decide unilaterally and virtually without notice when they introduce blank sailings, which they often justify as a way of combating port congestion and reducing the impact on the environment.

Discussion of Findings

(i) Carrier Alliances are Critical Part of Modern Shipping and Evolving: Beyond its cost-effectiveness, it is designed to tame shipping cycle and achieve controllable global supply chain with efficiency and profit maximization as the expected outcome. For proper grip of the system, carriers are currently expanding their services scope to inland logistics. Kulisch (2021) wrapped the scenario thus:

For big ocean freight lines, 2021 was marked not only by record profits stemming from COVID-related constraints on shipping patterns and capacity but by significant steps toward transforming themselves into full-blown providers of inland logistics services. The trend is further blurring the line between freight forwarders and carriers.

(ii) The Preponderance of Capital: Just as it is difficult to tame capital, it will be practically difficult but not impossible to regulate ocean liners even though it is a huge and armada of capital of which the State is the primary source. For instance; COSCO shipping is owned by Chinese government. So, if the carriers succeed in taming shipping cycle as it appears to be, their propensity for profit accumulation will be on the rise. It is in the nature of capital to make abnormal profit. Drewry projected that “the carrier alliances are likely to rake in over $150 billion profit before tax in 2021. More than estimated, ocean carriers closed 2021 with about $190 billion (Prevjak, 2022). In 2020, the industry brought in $25.4 billion, even though 2021 has been a banner year, Drewry expects the industry to make even more in 2022. Container shipping pre-tax profit for 2021 and 2022 could be as high as $300 billion (Goodkind, 2021)”. For instance; “AP Moller-Maersk, the world’s biggest container shipping line, is expected to make $17 billion in operating profits in 2021, up from predictions of $4.5 billion at the beginning of the year. That’s a 278% increase. Also, Hapag-Lloyd reported more in earnings over the past six months than they did in the last 10 years combined. Those profits according to Drewry, will give container line companies an extraordinary war chest to play with (Goodkind, 2021).”

(iii) Skillful Capacity Management: Before COVID-19 disruption, the carrier alliances had gone through over a decade of overcapacity pressure and low freight rates and cycles of operating below cost which led to liquidation of some carriers on the one hand and mergers, acquisition and entry into alliances on the other hand by some of the carriers. As a way to beat the inherent odds within container shipping industry, the carriers found consolidation and concentration of alliances, ever increasing tonnage capacity of new ships (i.e giangantism in shipping) and skillful capacity management as the master stroke to achieve Economies of scale and keep the poker game nature of freight rate in check and maintain relative stable profitable rate. As succinctly put by Jensen (2019), ‘herein lies the sign that the carriers are beginning to learn to wield the tools at their disposal. Making large changes to networks is a difficult exercise for many reasons. However, blanking individual sailing to better match capacity to demand is much more straightforward. And in the new environment, where there are only three main players providing capacity, the market impact of such actions also becomes much more predictable’.

It’s the carriers that control the supply spigot; they can turn it off and on almost at will and flex the supply to demand. Cargo interests can’t flex purchases to affect ocean supply or pricing, and ocean pricing doesn’t influence the market demand. That they don’t do it on a regular basis globally is a question only those at the carriers’ headquarters in Europe and Asia can answer (Permalink Submission in Jensen, 2019).
According to Seroka in Miller (2021b), there will be a new normal, with lessons learned during the current crisis informing future strategies. Freight rates may never return to any semblance of normalcy again i.e., Pre-COVID normalcy. The carrier alliances have learnt to pivot, to scale up and down (supply) depending on seasonality and the flow of cargo. As Jensen (2019) noted; carriers – not all, but most – will be increasingly inclined to say “no” to additional cargo, especially low-margin freight, and instead curtail capacity. This will result in upward rate pressure over time – not a sharp spike all of a sudden, but a long, slow increase like the tide coming in. Jensen further reiterated that; shippers need to come to grips with the fact that blank sailings are no longer rare, exceptional events. Rather, they are highly efficient tools for the carriers in terms of managing supply, and as such, shippers need to see blank sailing as a regular occurrence going forward and plan accordingly when negotiating terms for their contracts. The illustration below shows a snapshot of blank sailings announced by each Alliance versus the total number of scheduled sailings.

Figure 1 is an expression of the carrier alliances cancelled Vs scheduled sailings (week 35–38) across the three major trans-atlantics trades: Transpacific, Transatlantic & Asia-North Europe and Mediterranean. From the illustration above the total number of scheduled sailings in week 35–38, 2021 was 521, actual sailings 504 and cancelled sailings 17 representing 3.4% of scheduled sailings and actual sailings is 96.7%. The statistics shows significant sailings against cancelled sailings but the concern here is how cancelled or skipped sailings affect freight rate.

In week 39–42, Supply Chain Advisors (2021) stated that carrier alliances announced cancellations as follows: The Alliance – 21.5, 2 M 14 and Ocean alliance 13.5 making a total cancellation of 49 sailings.

Between week 52 and 03, the carrier alliances cancelled 58 scheduled sailings out of a total of 545. The 58 cancelled sailings represent 11% of the total scheduled sailings while 487 actual sailings represent 89%. During this period, 66% of the blanked sailings will be occurring in the Transpacific Eastbound trade, and mostly to the West Coast (Supply Chain Advisors, 2021). The figure below is a perfect insight into sailings blanking in the West coast.

Figure 2 shows that even before the pandemic as much as 25% of scheduled sailings to West coast between week 1 and 7 of 2019 was blanked. This corroborates the assertion of some experts in the shipping industry who argued that there were signals to the current shipping crisis before the emergence of COVID-19 Pandemic. Between week 3 and 9 of 2020, it rose up to 42% and 45% in week 46 of 2021. In a system, when one part is affected the ripple effect gets to the entire system. Though the massive blanking is more at West coast, however, the ripple effect of the impact affects the entire supply chain.

The cancellation of sailings by the alliances does not follow any defined pattern because of the complex nature of shipping market which makes prediction difficult. To keep the complexities in check – what made all the difference for carriers this time is the ability to continuously calibrate capacity supply in proportion to cargo demand and thereby control and maintain favourable freight rates. This practice by carriers simply expresses the law of demand and supply. Capacity is supplied or withdrawn relative to availability of demand for cargo at a prevailing freight rate. A contrast of Figures 2 and 3 aptly illustrate this fact. From Figure 3, the freight rates were highest in Sep. 2021, at $17, 500 but halved in November i.e., Week 46 of 2021 at $8, 500. The data in Figure 2 shows that blanking of sails in Asian-North America

![Figure 1](image1.png)  
*Figure 1. Carrier alliances cancelled Vs scheduled sailings (week 35–38, 2021). Source: Drewry in Hellenic Shipping News (2021).
West Coast was highest in week 46 and 45% and was about 16% in Week 36 i.e., September 2021. Juxtaposing Figures 2 and 3 shows that when the freight rates are high, blank sailings are low but when freight rates are low blank sailings are high. As expressed by law of supply; when the price is high, more is supplied and if supply exceeds demand which in this context is over-capacity, price (Freight rate) will fall.

The carriers over time have significantly improved in their mastery of capacity management such that in spite of the reasonable number of vessels idled, the deployed vessels generated the revenue that take care of the over-head cost of both deployed and idled vessels through a well programmed and negotiated freight rates. Blank sailing is no longer just the skipping of sailings but a science of capacity management. The
The evidence is seen in the freight rate increases which began from the dawn of COVID-19 Pandemic. It has been dubbed the “new normal” in container shipping industry because it was not an accidental development. It is a product of experience of cycles of losses and over a decade of unstable and low freight rates in the container shipping market. The prevailing sky-high freight rate which is without any sign of reasonable decline in the near future is proof that carrier alliances have mastered the science of capacity management of which only time will prove them wrong. However, if the antitrust immunity for ocean shipping alliances is reformed, competition in the sector will improve quality of service, and strengthening the resilience of supply chains.

**Recommendations**

**Promotion of competition in the ocean freight transportation system**

The dominance of the Tripod Alliance in the current container shipping market has killed competition. The market is predominantly self-regulated. Governments and international bodies concerned should intervene through guided competition i.e., competition guided by regulation of the operations of carrier alliances. For instance; the introduction of “Ocean Shipping Reform Act” by U.S. government which is expected to make it harder for ocean carriers to engage in arbitrary business practices and to regulate harmful practices by carriers. To this effect, the World Shipping Council pledged to continue to work in partnership with the U.S. Congress to craft holistic legislation that will deal with the real root causes of supply chain congestion without exacerbating the supply chain crisis. Furthermore, competition in the ocean freight transportation will be instrumental to lowering prices, improving quality of service, and strengthening the resilience of supply chains.

**The antitrust immunity for ocean shipping alliances should be discarded**

The current container shipping market dynamics suggest that the law has become counterproductive. At present, antitrust regulators in various nations are calling on the various governments to take action against ocean carriers for alleged service failures and unfair pricing.

**Disclosure statement**

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