

# A maritime cartel nears its end

By **Matthew Saltmarsh** / International Herald Tribune

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PARIS: Back in 1950, the Danish shipping company A.P. Moeller-Maersk was barred from the Far Eastern Freight Conference, one of several regular gatherings in which the mightiest players in the global shipping industry got together to exchange vital route and trade information - and to fix prices.

At the time, Maersk was seen as a niche player, not offering enough services to join the table.

Much has changed since then: Maersk has become the No. 1 ocean shipper in the world, gaining it entry into this elite circle. Now, however, the days of these conferences may be numbered after European governments agreed in September to longstanding efforts by the European Commission to curtail them.

The conferences trace their roots back to the 1870s, when traditional shipping companies established cartels to safeguard important trade routes to and from Europe in the face of a challenge from the new, independent steam ships plying their trade to India and the Far East.

Today, there are around 150 shipping conferences from China to India to the United States, covering the main trading routes around the world.

Although the era of steam power has blown by, the shipping industry maintains that the conferences still offer an important service to exporters by ensuring that routes remain fully serviced, providing information on timings, offering capacity-sharing services and, up until the 1990s, providing guidance to exporters on rates for freight and port services. In short, they argue, shipping cartels offer needed efficiencies, much as a utility monopoly does, and should not be judged in the same light as classic industrial cartels.

In 1986, European governments granted the shipping conferences an exemption to antitrust norms on the basis that the system yielded benefits for consumers.

But the European Commission, which is charged with enforcing European antitrust laws as the executive arm of the European Union, was not happy. For it, the fact that the world's shipping giants gathered on a regular basis to regulate their market was clearly anti-competitive.

"Shipping lines meet in conferences to fix prices, regulate capacity and other conditions of carriage," the commission's competition spokesman, Jonathan Todd, said in an e-mailed response to questions. "This resulted in market distortion as rates were not negotiated freely on the basis of supply and demand."

The economy, exporters and consumers, the commission argues, will benefit from lower transport prices and newfound competition that will arise if the conferences are abolished.

Vernon Rolls, a former manager of the Far Eastern Freight Conference, disagrees.

"We had a benevolent cartel," he said, "but that could never enter the closed minds of the Brussels bureaucrats and their hangers-on, whose knowledge of shipping was as small as their arrogance was great."

The cartels perceive themselves as benevolent because they offer certainty on rates to and from European ports and accept the obligation to cover berths, even when ships are chartered at inflated rates of hire.

Conference members argue that they have already given up many of their rate-setting functions and now have only price agreements for costs like bunker, terminal fees and currency charges. Nonetheless, after a report by the Organization for Economic Cooperation and Development in 2002 recommended the abolition of antitrust immunity for shipping cartels, the European Commission in 2005 formally proposed a repeal of the exemption.

But Hercules Haralambides, director of the Center for Maritime Economics and Logistics at Erasmus University Rotterdam, said the system produces much-needed certainty. The commission's contention that freight prices would fall after the rules take effect is "nonsense," he said, predicting that rates would instead rise as carriers consolidate further. Logistics costs would also rise, he said, while carriers may consider a return to the use of smaller vessels as capacity-sharing declines.

"The European officials are making a big blunder," he added. "They are looking inside themselves when their competitors are thinking globally."