

# Failing competition in the cargo liner shipping industry?

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- Introduction
- The method / model
- Competition in liner shipping
- Collusion in liner shipping
- Conclusions

- Council Regulation 4056/86, granting a Block Exemption from EU competition law, is under review
- Reason for the Block Exemption is a suspected „inherent instability“ of the market which is supposed to endanger the provision of a reliable schedule

Questions we address in the following:

- Do the specific features of the industry provide evidence for an „inherent instability“?
- What are the effects of collusion on the market result regarding prices and capacities?

- Empirical analysis difficult: lack of data
- Need of a theoretical analysis
- Simplifications are necessary, but the specific features of the industry must be taken into account
  - Fixed costs and low (constant) marginal costs
  - Lumpy investments
  - Capacity constraints
- Bertrand- and Cournot competition is considered
- Conferences are assumed to act as a Stackelberg leader

*Do the specific features of the industry provide evidence for an „inherent instability“?*

What do we mean by „instability“?

Lack of a Nash equilibrium in pure strategies with regard to prices or the number of carriers

Preliminary results of our studies:

- it might be that (only) under price competition, a Nash equilibrium in pure price strategies does not exist
- A Nash equilibrium with regard to the number of carriers always exist

# Collusion in liner shipping



*What are the effects of collusion on the market result regarding prices and capacities?*

Preliminary results of our studies:

- Collusion tends to raise prices and overcapacities with regard to competition
- Often an equilibrium with regard to the number of carriers does not exist

# Example for instability created by conferences

	N	C	O
N	0, 0	0, 3	0, 2
C	3, 0	0.5, 0.5	-1, 1
O	2, 0	1, -1	-2, -2

N: No entry

C: Entry and joining the conference

O: Entry as an outsider

# Conclusions



- Only little theoretical evidence for an „inherent instability“ of the cargo liner shipping market
- Conferences tend to raise prices and overcapacities
- Conferences also contribute to instability in the market
- We expect the prohibition of conferences to enhance social welfare