Introduction

Liner shipping services can be defined as relatively high-value traffic essentially carried by container ships, roll-on/roll-off vessels and the remaining classic twin-deck ships, supplied by either shipping companies or ship operators, whereby ships operating on a continuous basis along definite trade routes according to fixed, pre-announced schedules and calling at specified advertised harbours offer what is often referred to as common carrier services. Liner shipping is a highly concentrated sector with the top 20 liner carriers accounting for approximately 72% of world container capacity in 2002, while the top 15 liner carriers accounting for 86% in 2005. This concentration is even more dramatic when considering that the top five carriers account for 50% of the total fleet and order book. This oligopolistic structure of the liner shipping market is closely related to the organisation of the liner shipping industry through its history. The liner conference is the most important organisational form which has a significant influence on the competitive structure of the liner shipping market.5


As early as in 1980, Bernhard J. Abrahamsen was of the opinion that the very nature of liner shipping services consists in the oligopolistic market structure. In respect of explicit or tacit collusion as well as cartelisation in this sector, liner shipping industry is not different from other industries. For more details see Abrahamsen, International Ocean Shipping: Current Concepts and Principles (1980), p. 119 ff. This argument gains confirmation, almost 30 years later, by the European legislator in the review and repeal of block exemption for liner conferences in 2006, see the 3rd Recital of Regulation 1419/2006.

The other forms of organisation or cooperation among shipping lines include mergers of individual carriers, consortia, alliance, stabilization agreements as well as discussion or talking agreements. For more details on description and distinctness of such various organisational forms, see OECD, Report on Regulatory Issues in International Maritime Transport (2002); OECD, Final Report on Competition Policy in Liner Shipping
In the United Nations Convention on a Code of Conduct for Liner Conferences\(^6\) (the UNCTAD Liner Code), a liner conference is defined as “a group of two or more vessel-operating carriers which provides international liner services for the carriage of cargo on a particular route or routes within specified geographical limits and which has an agreement or arrangement, whatever its nature, within the framework of which they operate under uniform or common freight rates and any other agreed conditions with respect to the provision of liner services”\(^7\). It follows from this definition that a liner conference is a typical cartel, or so-called “hard-core” cartel\(^8\), which restricts or eliminates the internal competition among the member carriers primarily through arrangements like common freight rates, capacity arrangements as well as penalties on non-compliance. Furthermore, the anti-competitive effects of liner conferences also have external aspects. On one side, outsiders or independents are attacked by using “fighting ships” or attracted by being offered favourable conditions for cooperation. On the other side, measures such as loyalty agreements or rebate systems are used in order to strengthen the control over shippers as customers and eliminate malpractices like secret rebates or individual service contracts of individual member carriers\(^9\).

However, the debates on whether competition rules shall be applicable to liner conferences and how such rules concerning liner conferences shall be implemented both in substantive and in procedural meaning have lasted as long as the history of liner conferences\(^10\). Confronted with a market situation of “cut-throat competition” in the 1870s, the first liner conference was established on the UK – Calcutta (India) route, which started its operation in 1875\(^11\). The aim of this conference was to control competition amongst its members and to reduce competi-

\(^7\) The first paragraph in Chapter I of Part One of the UNCTAD Liner Code.
tion from outsiders. With the establishment of instruments like common tariffs as well as sailings arrangements and the introduction of further measures like loyalty agreements or rebates or a refund system, the model of liner conferences spread very quickly all over the world.

Complaints of such an organisational form of carriers and governmental investigations on this issue occurred at the early stage of the development of liner conferences already. The complaints came from two sources, shippers, on one side, and carriers who were not admitted to the conference on the other side. These complaints touched upon some of the monopolistic aspects of liner conferences, i.e. freight rates fixing, allocating sailings, pooling trade as well as fighting ships etc., and then gave rise to public inquiries into the legality and justification of the existence of liner conferences by the governments on both sides of the Atlantic, namely in Britain and the U.S.

In Britain, in 1906, the Royal Commission on Shipping Rings was appointed and came out with its report after three years in 1909. The Royal Commission’s report was divided into two parts: a majority decision and a minority decision. The majority decision concluded that the conference system, as a whole, did not operate to the detriment of the British economy. A system of checks and balances was inherent in the conference itself, i.e. the internal competition among the member lines. Outside competition from independent carriers and the common actions taken by shippers secured the phenomenon from abusing its powers in an unreasonable manner. The majority decision recognized the advantages of the conference system, i.e. the stability of freight rates and the regularity of service, and concluded that the advantages of the conferences were substantially dependent on the tying arrangements, the deferred rebates, or some other system which was equally effective. On the contrary, the minority decision concluded that the con-

ference system did not necessarily supply regular and adequate services, and the stable rate was not such a big advantage because it was usually higher than competitive rates. The majority decision did not consider legislation as a solution to control the powers of the conferences, but recommended the formation of shippers’ organisations for the purpose of negotiation with conferences as collective representatives of the users of conferences services. The majority decision further recommended that the Board of Trade (now the British Department of Trade) should keep conference practices under review by demanding the filing of conference agreements with it and the publication of their tariffs. Although the minority group demanded more stern action by the authorities to avoid monopoly abuses, the minority group suggested neither the abolishing of the conference system, nor any legislation which might prohibit or restrict tying devices.

In the U.S., in 1912, a Congressional Committee, the House of Representatives Merchant Marine and Fisheries Committee, under the chairmanship of Representative Joshua Alexander, undertook the task of inquiring into the modes and practices of shipping conferences. In a situation different from that for the Royal Commission on Shipping Rings in Britain, the Alexander Committee (named after its chairman) had to carry out an investigation and assessment especially against the background of the strict antitrust laws and enforcement in the U.S. Among many factors that had influence on the conclusion of the Alexander Committee, the findings of U.S. courts of antitrust enforcement on liner carriers as well shipping conferences played an essential role. It is remarkable that the U.S. Supreme Court held in *U.S. v. American Asiatic S.S. Co., et al. and U.S. v. Prince Line Ltd, et al.*\(^{18}\) that shipping conferences were not, *per se*, a violation of the antitrust laws. The construction of the Sherman Act prohibited only unreasonable restraint of trade. A violation of the Sherman Act is not established unless there is some proof of actual unreasonable interference with the natural course of trade. Finally, the Alexander Committee published a report\(^ {19}\) (Alexander Committee Report) and came to the conclusion that

“shipping conferences, if honestly and fairly conducted, will bring greater regularity and frequency of service, stability and uniformity of rates, economy in cost of service, better distribution of sailings, maintenance of American and European rates to foreign markets on a parity and equal treatment of shippers through the elimination of secret arrangements and under-handed methods of discrimination.”

The Alexander Committee Report further took into account the national industry policy and came to the conclusion that dissolving the conferences would cause


\(^{19}\) House Committee on The Merchant Marine and Fisheries, 63\(^{rd}\) Cong., 2D Sess., Report on Steamship Agreements and Affiliations in the American Foreign and Domestic Trade 415–21 (1914). (Recommendations quoted in full with approval in H.R.Rep. No. 659, 64\(^{th}\) Cong., 1\(^{st}\) Sess. 27–31 (1916) and in S. Rep. No. 689, 64\(^{th}\) Cong., 1\(^{st}\) Sess. 7–11 (1916)).
direct damage to the U.S. shipping industry since it would have to operate under inferior conditions compared to other nations’ fleets. Thus, the Alexander Committee Report recommended to let the conferences operate and to be exempted from the antitrust laws. However, in order to ensure “fair conduct” the Alexander Committee Report recommended government regulation. It was suggested that the Interstate Commerce Commission (ICC) should have jurisdiction over the activities of the shipping conferences operating in the foreign commerce of the U.S. The conferences should file their agreements with the ICC that would have the authority to cancel, modify, or approve those agreements. The criterion for disapproval should be based upon whether or not the agreements were detrimental to the U.S. commerce. The Alexander Committee Report also recommended that tariffs should be published; that deferred rebates and fighting ships should be outlawed; that the ICC should have the authority to investigate, on its own initiative, matters concerning these subjects; and that if needed, the ICC could order the disbanding of a conference.

It is interesting to compare the implementation of the public inquiry on both sides of the Atlantic. At the time of the Report of the Royal Commission on Shipping Rings, the beginning of the twentieth century, Britain was “the Workshop of the World” and a maritime superpower. However, the Royal Commission’s recommendations were not implemented in England, probably because of the strong position the carriers held in this maritime nation. The historical background for the Alexander Committee Report was that the U.S. was not yet a maritime power but the first industrial country that adopted antitrust rules and carried out strict antitrust enforcement. The outcome of the Alexander Committee’s recommendation was the establishment of a unique system in the American antitrust environment that permitted the existence of liner conferences under a regulatory scheme. About two years afterwards, the Shipping Act was passed in the U.S. Congress in September 1916. The spirit of the Alexander Committee’s recommendation pervaded the Shipping Act of 1916.

The endeavour on both sides of the Atlantic about one century ago, to try to establish a competition regulation of liner conferences, shows parallels with the subject discussed in this thesis: liner conferences under the contemporary regime

---

20 For a historical review, see Davies, British Shipping and World Trade: Rise and Decline: 1820–1939 (1985), p. 39 ff., especially in respect of liner conferences, see p. 58 ff.
23 Marx, International Shipping Cartels: A Study of Industrial Self-Regulation by Shipping Conferences (1953), p. 67. The Shipping Act of 1916, 39 Stat. 728. Instead of authorizing the ICC, a new agency was established, the U.S. Shipping Board who was given the jurisdiction and power to regulate and control the shipping conferences in the foreign commerce of the U.S.
of competition regulation in the European Community (EC) and the People’s Republic of China (PRC).\textsuperscript{24}

Like the transatlantic trade across the Atlantic, Europe-Asia trade is one of the three main trades accounting for a major market share of liner shipping traffic.\textsuperscript{25} Already in 1879, the “China Conference”\textsuperscript{26} has been established on this trade route. As trade between Europe and Asia grew, the “China Conference” attracted an increasing number of lines and continued to expand and finally grew into the Far Eastern Freight Conference (FEFC)\textsuperscript{27} which controls several subsidiary liner conferences and has a significant influence in the liner shipping market on the Europe-Asia trade route.\textsuperscript{28} On the two ends of this trade route, the regimes of competition regulation of liner conferences are, somewhat similar to the situation in the early 1900s on both sides of the Atlantic, not much in accordance with each other.

The EC, since its founding in 1957, aims at establishing a system ensuring that competition in the internal market is not distorted.\textsuperscript{29} Today, the EC has a very comprehensive system of competition law with its competition theories, enactments, enforcement and many remarkable decisions of individual cases. Competition regulations on liner shipping industry implement, on one side, the general EC competition rules;\textsuperscript{30} on the other side, the enactments on liner conferences as well

\textsuperscript{24} In this thesis, the term “PRC” is used excluding the Special Administration Areas of Hong Kong and Macau.

\textsuperscript{25} Parameswaran, The Liberalization of Maritime Transport Services (2004), p. 34.

\textsuperscript{26} The so-called “China Conference” was named “Agreement for the Working of the China and Japan Trade, Outwards and Homewards”. This liner conference was set up by six shipping lines, five British and one French. The document was signed on 29 August 1879.

\textsuperscript{27} By the early 1900s the FEFC consisted of three main conferences, the Far East Outward Conference, the Far East Homeward Conference, and the Straits Homeward Conference, with members from Britain, France, China, Germany, Japan, Austria, Holland, Denmark, Russia and Italy among the members of the various Conferences that were the constituent parts of the FEFC. The FEFC continued to grow, and in the mid-1970s had 28 Members from 18 states. The consolidation in the liner shipping industry and the investment required for containerisation have reduced the number of members to the current 15 Lines which represent the major trading nations in Asia and Europe. In 2002 it was estimated that the Lines had a slot total of 147 fully cellular vessels with a capacity of 630,500 on board slots, operating on the trades between Asia and Europe, and carried 6,075,000 TEUs in total on the trade.

\textsuperscript{28} The FEFC is now the largest conference worldwide and covers the region of North Europe, the Mediterranean, and Asia from the Northern border of Myanmar to the north of Japan. For more details see von Hinten-Reed/Chipty/Morton, A Study of the Impact of FEFC (2004).

\textsuperscript{29} Article 3(g) EC.

\textsuperscript{30} ECJ 4 April 1974, case 167/73 (Commission v. French Republic, “French Merchant Seamen”), [1974] E.C.R. 359, in this case the ECJ affirmed for the first time that the “fundamental rules of the EC Treaty” are applicable to the sector of transport in general and hereby also to the maritime transport sector. ECJ 30 April 1986, joined cases 209 to 213/84 (Ministère Publique v. Lucas Asjes and Others, “Nouvelles Frontières”), [1986]
as related case law constitute an essential part of the sector-specific regulation and significantly contribute to the development of the EC competition law as a whole.\textsuperscript{31} In the PRC as a big developing country in the course of transformation from the previous soviet model of a planned economy, the substantive competition legislation began only with the introduction of the “socialist market economy” in 1993.\textsuperscript{32} Confined by the transformation process as well as the fundamental political and economical order, the development of competition legislation in the PRC has followed a tortuous course both in the area of general competition rules and in that of sector-specific competition regulation. Until now, it can still hardly be argued that a systematic competition regime has been established in the PRC. The same holds also for sector-specific competition regulation of liner conferences.\textsuperscript{33}

It is interesting to note that the present background for comparison of competition regulation between the EC and the PRC is different from the one on both sides of the Atlantic in the early 1900s. The PRC is a maritime giant for its big national merchant fleet.\textsuperscript{34} However, the industry policy of “national champion” has not realized the dream of the Chinese to be a maritime power. The EC pursues a strict competition policy while its liner shipping industry has reached a leading position in the whole industry around the world.\textsuperscript{35} Nevertheless, further significant

\textsuperscript{31} As regards the enactments, Regulation 4056/86 on liner conferences and other regulations for maritime industry such as consortia etc. belong to the important block exemption regulations pursuant to Article 81(3) EC and constitute essential part of the secondary competition rules of the EC. As regards the effects of the case law, a significant example is ECJ 16 March 2000, joined cases C-395/96 P and C-396/96 P (\textit{Compagnie Maritime Belge Transports, Compagnie Maritime Belge and Dafra-Lines A/S v. Commission}), [2000] E.C.R. I-1365. In this case, the ECJ not only confirmed the application of Article 82 EC on collective dominance from the point of view of the development of Community competition rules, but also directly refers to the interpretation of collective dominance in respect of liner conferences. For more details, see below Chapter VI A. I. 6. b.

\textsuperscript{32} For an overview of the Chinese competition legislation, see below Chapter II B. II. 1.

\textsuperscript{33} For more details, see below Chapter II B. I. 2.

\textsuperscript{34} The statistic data shows that COSCO, one of the Chinese State-owned shipping enterprises, has 150 ships with 446,075 TEUs, while another big State-owned shipping enterprise, China Shipping, has 102 ships with 462,989 TEUs. Totally, the Chinese national carriers control 9.5% of the global fleet and orderbook and account for 7.2% of the whole market share in 2005. See \textit{Global Insight/WIP/ISL}, The Application of Competition Rules to Liner Shipping (2005), paras. 109 ff. and 119 ff.

\textsuperscript{35} Four out of the top five carriers worldwide are European carriers and of these four carriers, three are EU based and control 33% of global liner capacity. European carriers dominate liner shipping trades world-wide and have a strong position on all international trade routes not only on EU trades, while Chinese carriers control 9.5% of the global fleet and orderbook. There is virtually no liner shipping industry based in North America. Between 2000 and 2005, European carriers have increased their global capacity share in liner shipping. During the same period the share of Chinese, Japanese and
developments have been seen at both ends of the Europe-Asia trade route: the EC has adopted Regulation 1419/2006\(^\text{36}\) on 25 September 2006 which repeals the twenty-year-old block exemption for liner conferences, while the PRC finally adopted the first Anti-Monopoly Law (AML) on 30 August 2007\(^\text{37}\) which ended almost twenty-year suspicion, opposition and compromise concerning this legislative project.

This thesis on comparative analysis of liner conferences under the contemporary regime of competition regulation in the EC and the PRC is divided into seven chapters: Chapter I demonstrates the historical development of maritime policy and of the regulatory regime of liner conferences in the EC and the PRC. Chapter II centres on the relation between general competition rules and sector-specific regulation in the field of liner conferences in the two different jurisdictions, with the focus on compatibility and applicability. On this basis, the scope of application of the sector-specific regulation of liner conferences is discussed in Chapter III. Chapter IV discusses whether and how antitrust exemptions or exceptions for liner conferences are constructed in the EC and the PRC. Chapter V focuses on the procedural rules of specific regulatory regimes and casts light on the enforcement of substantive competition rules for liner conferences. In view of the ongoing development and the latest competition legislation in the EC and the RPC, Chapter VI links past and future: theoretical or empirical critiques to the existing regulation regimes are discussed from a historical view; and then a perspective for the future regulation will be discussed in the light of the new regime. Finally, a summary of this study can be found in Chapter VII.

---


\(^{37}\) Anti-Monopoly Law [反垄断法], adopted at the 29th Session of the Standing Committee of the 10th NPC on 30 August 2007 and will be effective as of 1 August 2008.
Liner Conferences in Competition Law
A Comparative Analysis of European and Chinese Law
Liu, H.
2010, XXII, 314 p., Softcover
ISBN: 978-3-642-03874-7