



## Commentary: Maersk Line's South Korean strategy

Hayes Howard, CEO of BlueWater Reporting, has analyzed recent occurrences in the container shipping industry regarding HMM's bid to join the 2M Alliance, along with Korea Line's purchase of certain Hanjin assets.

BY HAYES HOWARD | WEDNESDAY, NOVEMBER 23, 2016

The Seoul Central District Court threw a wrench into HMM's plans on Nov. 14, when it ruled that Korea Line, not HMM, was the preferred bidder for the transpacific assets of Hanjin Shipping, which filed for bankruptcy on Aug. 31.

"The court's initial sale list included five vessels, related crew members and networks on Hanjin's Asia-U.S. route as well as seven of the company's overseas subsidiaries," the *Korea JoongAng Daily* reported at the time. These assets would have enabled HMM to nearly double its capacity dedicated to the transpacific trade.

Korea Line concluded a deal for Hanjin's assets on Nov. 22, but it does not include the five vessels. Korea Line's preferential negotiating position to finalize the deal for the ships runs to Jan. 5.

These developments raise two important questions:

1. Did the entry of Korea Line as the preferred bidder cause the 2M VSA to rethink allowing HMM to join the agreement?
2. Why did Korea Line make a deal to buy Hanjin's business networks and client information in the Asia-to-U.S. trade without concluding a deal on the ships?

To answer the first question, we need to look at what HMM offered the 2M Alliance.

HMM's fleet capacity of just over 440,000 TEUs represents only 7.3 percent of the fleet capacity of more than 6 million TEUs operated by Maersk, its affiliates, and MSC. If you look at the 2M capacity already operating on the Asia-North Europe trade, HMM would contribute only 4 percent of additional capacity.

However, it's in the transpacific trade where HMM could play a significant role. Today, Maersk and MSC offer about 70,000 TEUs of capacity each week in the trade. HMM's weekly allocated capacity of 13,500 TEUs would increase that amount by 19 percent. If HMM acquired the five Hanjin vessels, it could increase the alliance's capacity by 38 percent.

Under the restructured global shipping alliances taking effect in April, the 2M VSA will have the smallest market share (22 percent) of the three alliances controlling 96 percent of the transpacific trade. The addition of HMM, with the Hanjin vessels, would have increased their weekly capacity to an estimated 110,000 TEUs, which would represent a market share of about 29 percent.

If they were only concerned about market share, Maersk and MSC certainly could increase their capacity on the transpacific by 26,700 TEUs. You need to look at what else HMM brings to the table to see why a deal would make sense to the 2M VSA.

I believe it is HMM's access to key South Korean manufacturers. Datamyne, which tracks imports and exports within the U.S. container trades, reported that 132,000 TEUs of goods moved from South Korea to the United States in October. Of that amount, 16 percent, or 21,750 TEUs, were moved by HMM. Having HMM as a partner would give the 2M VSA improved access to the cargoes of South Korean manufacturers that traditionally support their country's carriers.

The entry of Korea Line into the trade might offer the 2M VSA the same level of access to the South Korean market that HMM offers without the liability of HMM's troubled balance sheet. The statement from Maersk on Nov. 21 indicates the alliance is looking for a less risky way to strengthen its access to the South Korean market.

The answer to our second question may be found in the same Maersk statement. Rather than purchasing the five Hanjin vessels, Korea Line might find a better deal by obtaining tonnage in the troubled charter market. Maersk could also provide Korea Line the same option it appears to be offering HMM by arranging charters and operating those vessels on behalf of Korea Line, with the goal of deploying them in the 2M network to enhance the VSAs transpacific operations.