Consolidation in ferry and ro-ro shipping at the Baltic Sea

Introduction

Liner shipping market at the Baltic Sea comprises several segments: ocean, feeder, short sea shipping container operation, ro-ros and ferry shipping. During last decade lots of mergers and acquisitions (M&A) took place. The aim of mergers and takeovers is reduction of costs, growth of effectiveness and increase of market share. Concentration of operation is observed in all sectors and as a result the number of independent carriers decreased.

Ro-ro and ferry shipping handle cargo mainly in intra-Baltic trades. In ferry shipping passengers are carried as well. These segments of shipping are affected by alternative mode of transport, especially road transportation and in relation to passenger market by low cost airlines.

The Baltic ro-ro and ferry shipping market is highly competitive, hence the carriers consolidate to improve their economic results. The aim of the paper is to present the process of consolidation in ro-ro and ferry sector at the Baltic Sea in the last decade and to consider the position of main carriers in the context of market development.

1. Ferry and ro – ro shipping at the Baltic Sea

Ferry and ro-ro shipping are very common in the Baltic Sea Region, where they handle the majority of the intra-sea trade. Both vessel types utilise the roll-on/roll-off design to greatly facilitate loading and discharging of road and/or rail vehicles. The former also has an ability to carry passengers, while the latter deals solely with cargo. Most transportation links are served by both pure cargo ro-ros and ferry ships, although some are operated exclusively by either one of them.

Baltic is one of the main region of ferry shipping with 17 ferry companies working in this area. They operate about 120 ferries of different types (cruise-trailer, ro-pax, cargo, high speed), plying 59 services (Shippax Market 14, 2014). For cargo the most convenient are ro-paxes and ro-ro ferries with space for drivers, hence they are operated in services where lorries and trailers dominate. Cruise-trailer ships have also large capacity for wheeled cargo, but they are put at markets with huge passenger demand, for example Finland – Estonia, Sweden – Finland, Norway – Germany.
The ferry market can be divided into 3 sub-markets: western, eastern and central. The biggest concentration of ferry industry occurs in the Western Baltic and Danish Straits, which occupies more than 60% of total number of passengers and 70% of cargo carried at the Baltic by ferries. In this region 49 vessels are employed, operating mainly by Stena Line, TT-Line, DFDS Seaways and Color Line. The second region is the Eastern Baltic, which includes services from Finland to Sweden, Estonia and Russia, as well services from Sweden to Estonia and Russia. This market share is about 32% in passenger traffic and 15% in cargo turnover and the main operators are Silja Line-Tallink Group and Viking Line. The Central Baltic containing services from Sweden to Poland, Lithuania and Latvia, as well as trans-Baltic connections (e.g. Germany – Lithuania). The leading companies in this region are Unity Line and Stena Line (Shippax Market 14, 2014).

In relation to ro-ro segment, about 33 lines exists in the region that are operated by 55 pure ro-ro ships with Finnlines, Transfenica and DFDS Seaways as the main operators. The Baltic ro-ro market, similar to ferry industry, consist of 3 parts. The western market includes services between Sweden, Germany and Denmark, the eastern market includes links between Sweden, Finland and Estonia. Furthermore very common are long connections via Baltic ex Helsinki – Travemunde, Travemunde – Ventspils, Kiel - Klaipeda. The main ro-ro terminals are Lubeck, Gothenburg, Gdynia, Trelleborg, Travemunde, Helsinki, Stockholm. As indicated ro-ro transport is related mostly to cross Baltic trades (Shippax Market 14, 2014).

Tab. 1 Main ferry and ro-ro operators at the Baltic Sea

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Number of ships</th>
<th>Ferries</th>
<th>Pure ro-ros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tallink /Silja Line</td>
<td>15</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Viking Line</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Finnlines</td>
<td>24</td>
<td>23</td>
<td>14</td>
</tr>
<tr>
<td>DFDS Seaways</td>
<td>14</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Stena Line</td>
<td>18</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Color Line</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Unity Line</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>TT-Line</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Transfenica</td>
<td>12</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Mann Lines</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

2. **Consolidation at the Baltic Sea**

In order to increase efficiency and profitability, some competing ferry and ro-ro operators merged or decided to cooperate through formal/informal agreements. Alliances similar to ocean shipping were not common in ferry industry, but changes in market environment have shown new challenges.

According to Styhre (2009) other purposes of collaboration are to enhance market power and gain flexibility. There is a substantial economic literature identifying ways in which economic efficiency can be increased through vertical integration as well as a literature recording mergers and acquisitions in maritime industry (e.g. Van de Voorde et.al , 2009; Slack et. al, 2002; Frémont, 2008). An inter-firm alliance can be create also through the introduction of standard for quality and service or a joint capacity pool (Van der Horst, de Langen 2008), which may enhance ships capacity utilization (Styhre 2009). The other operators’ activities are also connected with the rationalization of services, as for example the abandonment of services which are unprofitable or changing in schedule frequency, slow steaming etc.

The Baltic market of ferry and ro-ro shipping is characterized by dynamic changes in the functioning of operating carriers. The characteristic feature is the on-going concentration as far as the supply of services is concerned. During the last decade a number of mergers and takeovers occurred in this sector of shipping. There have also been noted examples of selling cargo carriage services and withdrawals from the shipping operations in the BSR, which has led to decreasing number of individually functioning operators.

The above mentioned phenomena also resulted in the changes of activities – either the companies which had been taken over still appear on the market under their own name as dependant joint ventures or are totally absorbed by a new owner and disappear from the market. But this does not mean that there are no new operators nor new shipping services on the Baltic market. For this very reason, despite the on-going concentration, ro-ro and ferry operators does not decrease considerably, and in some years there have been visible increases.

The biggest operator in this segment is the Finnish carrier, the Finnlines, which is one of the oldest traditional carriers in the region of the Baltic sea. It was established in 1947 as a company dependant on the Marivienti Oy. Over the years this carrier had undergone several changes in organisation co-operating with other ship owners and participating in numerous
mergers and takeovers. They were so many that only a selected few have been mentioned below.

In the year 1975 the operating company, the Finncarriers was established as a joint venture of Finnlines and the Finland Steamship Company. The latest belonged to the most important and the oldest traditional enterprises dealing with the carriage of freight between Finland and Germany. In 2001, the Finncarriers was absorbed again by the “mother” company (Finnlines). Going back to the year 1997, the Finnlines fully owned the German company, the Poseidon Schiffahrt AG and the ferry operator Railship, operating the rail ferry service from Germany to Hanko in Finland. At that time, the container operator, the Team Lines was purchased and also the FinnLink operating the ro-ro vessels between Sweden and Finland was taken over ( it was established in 1986 and the Finnlines had 15% of the shares those days). In the year 2001, the operator Nordo Line operating the cargo – passenger service between Malmoe and Travemuende was taken over by this company. Ownership changed considerable in the year 2006, when the Finnlines became a part of the Grimaldi Group. In the middle of that year, the new owner had 30,5% of the shares while by the end of the year 2007 its shares increased to 52,5%. On the 31st January 2011 the Grimaldi Group had 66,8% of the shares. (Finnlines Annual Report 2011).

Another enterprise, which over the years performed many takeovers is the Danish carrier the DFDS SEAWAYS. One of the oldest and the most noted purchases was the Swedish ferry operator, the Tor Line, which was acquired in 1982. In the years to follow, the Tor Line focused on the carriage of cargo in the Baltic and the North Sea under the name of the DFDS Tor Line. In the year 2001, the DFDS took over the Lithuanian operator LISCO, operating in the sector of the carriage of cargoes and passengers, purchasing 76,36% of the shares. The above mentioned activities include operations in the region of the Baltic sea. It should be noted that the DFDS carried out similar takeovers in the region of the North sea (among others the purchase of a well known carrier, the Norfolk Line from the Maersk). Restructuring its activity in the year 2010, the DFDS consolidated the DFDS Tor Line, the DFDS LISCO and the Norfolk Line into the DFDS SEAWAYS, becoming one of the biggest ferry operators in North Europe.

Very interesting changes have taken place among the ferry operators traditionally operating in the Eastern Baltic. In 2006, the Estonian operator Tallink expanded its activities. In April 2006 it (paid 310 million euros) took over three fast ro-pax ferries from the Greek operator Superfast Ferries together with the exclusive operation of the line between Rostock and Hanko. The former operator totally stopped its activities in the BSR. Since January 2007,
the port in Helsinki replaced port of Hanko and Tallinn was included in the service which resulted in the direct connection between Estonia and Germany and filled in a certain gap left after the Silja Line had withdrawn its services from the German market. After operating for a few years and due to the unsatisfactory results, the decision was made to stop the service.

Another event changing the power status on the ferry market in July 2006 was the purchase of the Silja Line shares by the Tallink for 450 million euros. The Finnish operator’s finance problems resulted from the withdrawal of the main Finnish shareholder operator, the Sea Containers from the ferry business. The merger influenced the financial position of the group, e.g. net sales rose from 761 million euro in financial year 2006/2007 to 814 million euro in 2009/2010 (Tallink Year Book 2009/2010).

The ownership changes have also affected the German – Danish ferry operator, the Scandlines AG, which functioned as “mother” company for the two dependant companies: the Scandlines Deutschland GmbH and the Scandlines Danmark A/S. The operator belonged to the Danish Ministry of Transport and the Deutsche Bahn AG, which had 50% of the shares each. In 2007, the operator was sold to a consortium consisting of two financial institutions The 3i Group and the Allianz Capital Partners, that got 40% of the shares each. The ship owner Deutsche Seereederei owned the rest 10%. In 2010, the shares of the latter were taken over for the both partners. Further in autumn 2012 Swedish Stena Line acquired, previously belonging to Scandlines, five ferry operations connecting Sweden, Germany and Latvia, which are maintained under Stena Line brand.

Apart from capital consolidation, ferry and ro-ro operators cooperate in alliances, which is a quite new phenomenon. In ferry segment former competitors plying the route Helsingör-Helsingborg, that is Scandlines and HH-Ferries, have entered into agreement concerning cooperation on operation, which was considered as the beginning of a real merger under the operational company Scandlines. To improve efficiency, companies have started a joint operation of the ferry terminal, joint ticketing system and check-in procedure, joint operation of 5 ferries. Later HH –Ferries service was ceased. The agreement had a positive influence on the company performance – the passengers and cargo traffic grew by – correspondingly 5% and 4%. In 2013 Stena Line took over this service and it is operated under Stena Line Oresund brand.

In 2009 TT-line and Scandlines started to cooperate on Rostock-Trelleborg in the form of cargo capacity pool. Moreover they have entered into agreement on reduction of frequency of ferry calls – TT-line operated morning calls, whereas Scandlines afternoon calls. (C&F Info 2009). The mentioned agreement ended after Stena line took over the Scandlines operations.
Conclusions.

Ro-ro and ferry shipping companies do not form alliances as in container shipping. If they cooperate, they usually do it in informal agreements or joint services. The above mentioned concentration (mergers) in that segment results in growing share of main carriers like Finnlines, Stena Line, DFDS and Tallink Group. Their market share is estimated at about 70% (Shippax Market, 2013). Ferry and ro-ro is highly dependent on road transport, as lorries and trailers dominate. So ro-ro and ferry shipping can be regarded as complementary mode of transport to road transportation on routes between Scandinavia and Continent.

The mergers and takeovers presented above are not the only ones which took place in the Baltic Sea Region, but they are those which substantially affected the division of power in the Baltic shipping. They also indicated the position of the particular operators on the market and their competitiveness. The mergers and cooperation gave the opportunity to rationalize services, introduce the new ships, optimize scheduling to reduce in-port and waiting time and to enhance company’s competitive position.

Konsolidacja w żeglu promowej i ro-ro na Morzu Bałtyckim

Streszczenie

Bałtycki rynek promowy jest wysoce konkurencyjny. Na przestrzeni ostatniej dekady doszło do szeregu fuzji i przejść, co doprowadziło do ograniczenia liczby samodzielnie działających operatorów i osiągnięcia dominującej pozycji przez kilka przedsiębiorstw: Finnlines, Tallink, Stena Line, DFDS Seaways. Ich udział w rynku szacowany jest na ok. 70% przewozów pasażerów i ładunków dokonywanych w Regionie Morza Bałtyckiego. Celem artykułu jest prezentacja procesu konsolidacji w tym sektorze żeglugi oraz pozycji głównych przewoźników.
References

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