The Role of Container Leasing for Maritime Transportation
- Analysis and Introduction of Container Leasing Business to Asia -

Taichiro Sahara
Department of Commerce
Senshu University, Tokyo Japan
EMAIL: taichiro007@aol.com

Abstract: Containers, internationally standardized equipment for maritime transportation, have been making major contribution for liner shipping industry. Their use has dramatically enhanced the speed and effectiveness for cross-border shipping of both industrial and consumer products, as such the trade volume by containers have significantly increased since their introduction. Today, roughly half of containers in the world are owned by shipping company and the rest half is lease containers leased by container leasing companies to shipping companies. The container leasing business is relatively new business. Most of container leasing companies were formed in middle to late twentieth century. The business has been driven by seven major companies and they have more than 75% of its market share. In spite of the fact that the major contributor of maritime transportation is Asia in terms of shipping volume, all of those major container leasing companies are western countries based. This paper tries to analyze the barrier to entry of container leasing business and its business opportunity for Asian countries.

Keywords: Containers, container leasing, maritime transportation, containerization, new entry, differentiation

I. Introduction

The container was invented in August 1954. Its patent was issued in September 1958 by the United States Patent Office. ISO standardized containerisation globally during 1968-1970. Since its invention and standardization, the total number of maritime containers in the world has been dramatically increased in the past decades.
Especially the container traffic volume in Asia shows remarkable growth. In terms of traffic volume, seven ports out of top ten ranked container ports are located in Asia during the year 2007.

Table 1.

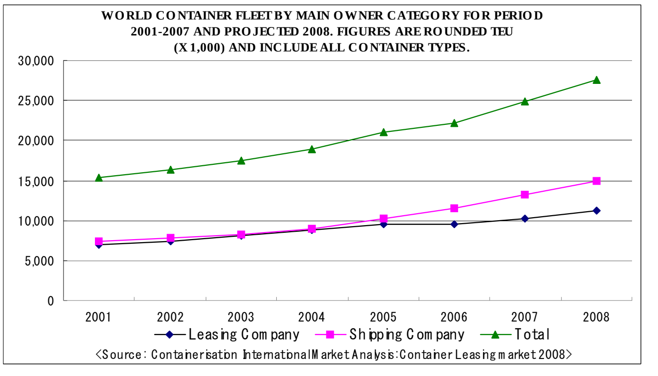
CONTAINER TRAFFIC VOLUME BY REGION (Million TEU)

Year	1990	1995	2000	2005
Asia	24	49	92	166
Japan	8	11	13	17
North America	17	21	30	43
Europe	20	28	46	69

<Source: Tsusho Hakusho 2008, Original source from *Containerisation International Yearbook*>

As the recent trend, roughly, half of containers for maritime transportation in the world are owned by shipping company and the rest half is lease containers leased by container leasing companies to shipping companies.

Figure 1.



II. Overview of Container Leasing Business

The container leasing business is relatively new business. Most of container leasing companies were formed in middle to late twentieth century. Top three companies in TEU base, Textainer, Florens, Triton container, were established in 1979, 1987, and 1981 respectively. The business has been driven by seven major companies and they have more than 75% of its market share.
Liner shipping companies are able to save initial cost for purchasing containers by utilize lease containers. Generally, the leasing cost is calculated by per diem rate, which is fee for one day use. This per diem rate shall be determined by lease agreement made between shipping companies and container leasing companies. The lease agreement can generally be divided into long term agreement (3-10 years duration) and short term agreement (up to three year duration). Per diem rate becomes lower when containers are leased for long term to better credit rating shipping companies.
Containerisation International Market Analysis: Container Leasing Market 2008 reports the calculated annual revenue by agreement type for the year 2007. It was 2,155 US million dollars for long term agreement and 810 US million dollars for short term agreement respectively. Using simple calculation, the container leasing industry generated 2,965 US million dollars of revenue for its total during 2007.

Table 2.

TOP RANKING CONTAINER LEASING COMPANIES (1,000TEU)		
	2008(projected)	
	Share %	Total TEU
Textainer	17%	2,045.0
Florens Group	14%	1,680.0
Triton Container	13%	1,495.0
TAL International	9%	1,060.0
Seacastle Container Leasing	8%	1,000.0
GESeaCo	8%	950.0
CAI International, Inc.	7%	780.0
<Source: Containerisation International Market Analysis: Container Leasing market 2008>		

As it is stated, Asian countries have contributed to container trade and have sustained demand in the world. However, in terms of container leasing business point of view, the container leasing business has been dominated by western country based companies. Considering half of containers are leased and Asian countries have played major portion of container trade volume, it is wondered why Asia based companies haven't conducted large portion of container leasing business. Florens Group is the only one Asia based (Hong Kong) major container leasing company. Not only focusing on the trade traffic volume of shipping products, but also focusing on the containers themselves would be essential for the future economic growth of Asia. Containers are equipment which actually delivers important products manufactured in Asia. Thus, it is critical for Asia to capture the business opportunity and take part in container leasing business as container owner and/or operator.

III. Barrir to Entry of Container Leasing Business

The sales side of entry barrier is relatively low. Container is basically the box made of iron. Due to its simple form and globally standardized structure, it is unlikely affected by new technology. Also, containers are valued as long as they have cargo worthy function. Therefore, the power of brand affects very small portion like we use gasoline without thinking its brand. In terms of container distribution, the container leasing companies need to allocate agents and/or subsidiaries where the ports are located in order to handle their containers. It could be the barrier for brand new entered company since it has to develop relationship with agents from scratch.

From the size of capital point of view, it plays great role in container leasing business. It directly connects to the volume of operating containers and its leasing revenue. Actually, the merger and acquisition have been frequently happened in container leasing industry by using capital power. For example, Fortress investment group acquired two container leasing companies, Interpool and Carlisle Leasing, and established Seacastle Container Leasing in 2007. It became fifth ranked container leasing company.

In terms of competition among the container leasing industry, since the structure of containers are globally standardized, less technology is required, and the size of capital plays major role, taking cost leadership and differentiation strategy are very difficult challenge for newly established company to overcome.

IV. Entry to Container Leasing: Japan's Case

Ports in Asian region have led the world container traffic volume, however; its traffic volume in Japanese ports has been decreased in past thirty years. Current economic condition, limited consumption by small population, rapid growth of other Asian courtiers, would be affecting this decrease. Although Japan has leading edge technology for manufacturing industrial products, it is no longer able to rely on just exporting those products for economic growth.

In 2008, Beacon Intermodal Leasing owned by Mitsubishi group entered to container leasing business. It has operates very small number of containers yet. Since it is one of the major keiretsu groups in Japan, it could be able to use its capital power, but it started off from very small number of containers. In addition to it, Beacon Intermodal Leasing operates reefer containers. The containers function as refrigerator and used for temperature sensitive cargo. Besides using size of capital, concentration to one categorized portion in the maritime transportation as differentiation strategy could be the key factor to enter and succeed in container leasing industry.

V. Container Leasing Business and Economy Growth in Asia

Establishment of container leasing companies in Asia by various Asia counties will be critical for the prosperity of Asia. Since the number of containers used in the world are increasing, not just being user of container, but being operator of containers brings new business to Asia. Capturing this business opportunity in new and growing business field will sustain the future economic growth and happiness of Asia.

References

[1] Bain J. S., 1966. *Barriers to New Competition*, Harvard University Press, Massachusetts.

[2] Bain J. S., 1968. *Industrial Organization*, John Wiley & Sons, Inc., New York.

[3] Containerisation International: Leasing Market Analysis 2008, Informa.

[4] Levinson, M., 2006. *The Box*, Princeton University Press, New Jersey.

[5] Ministry of Economy, Trade and Industry of Japan, *Tsusho Hakusho*, 2008.

[6] Porter M. E., 1985. *Competitive Advantage*, The Free Press, New York.

[7] Porter M. E., 1980. *Competitive Strategy*, The Free Press, New York.

Background of Authors

Taichiro Sahara received the B.A. degree from Senshu University and M.A degree from University of Nebraska-Lincoln.