

Title: Market Power at Sea: Micro Evidence, Macro Implications

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Abstract:

We separate the effects of market power and capacity constraints in transportation. Theoretically, imperfect competition—not capacity constraints—generates differential freight price changes across buyers following a demand shock. Consistent with this, difference-in-differences estimates reveal, after COVID-19 demand surge, freight forwarders faced a 30 pp larger increase in base freight rates than direct shippers despite similar contract terms with the same carrier. This reflects rising carrier markups that disproportionately burden smaller firms and explain at least 20% of freight price growth and 16% of U.S. import price inflation. Thus, ensuring competition in transportation is crucial for supply-chain resilience and macroeconomic stability.