

**Response of Hanjin Shipping Co., Ltd.
To the Federal Maritime Commission's Notice of Inquiry
Analyzing the European Union's Repeal of the Liner Conference Block Exemption**

2011 JAN 31 PM 3:57
OFFICE OF THE SECRETARY
FEDERAL MARITIME COMMISSION

Section A: General Questions

1. Based on your experience since September 2006 (when the European Union announced its decision to terminate the block exemption for liner shipping conferences to take effect October 2008), what impacts, if any, have you identified on your company's commercial activities, in any trade lane, that you would attribute to the termination of the E.U. conference block exemption? Please explain. If you believe there have been such impacts, please indicate when that impact first occurred.

- As non-conference in the EU trade, little impact on our approach to pricing. However, now each individual carriers announcing their own charges/surcharges based on commercial factors determined by each carrier. Because of the nature of liner shipping economics, unpredictable swings in rate levels now more common in the EU trade as moderating role of conference was eliminated.

2. Based on your experience since October 2008 (when the E.U. exemption for liner conferences was terminated) has any class of shipper or class of vessel-operating common carrier received a competitive advantage or been put at a competitive disadvantage as a result of the E.U. decision to terminate the exemption? If so, please explain.

- Nothing has been released by shippers and carriers in regards to specific advantages or disadvantages resulted from the EU decision to terminate the exemption.

3. Based on your experience since October 2008 (when the E.U. exemption for liner conferences was terminated), have differences between U.S. and E.U. liner shipping competition regulations created any problems for your company? If so, please explain.

- Before and after the EU withdrew immunity, rate trends in these trades were related to trade conditions (market supply/demand), but the EU trades have experienced greater volatility than trades with antitrust immunity. The frequency of changes in rates, surcharges adjustment have also increased.

4. Does your company view cooperation among ocean carriers in operational agreements (e.g., vessel sharing agreements, alliances, consortia, etc.) as generally having a positive, neutral or negative impact on the availability or cost of liner shipping services? Please explain. Does the E.U. market share threshold of 30% for such operational agreements have any effect with respect to that impact? If so, please explain.

- VSA (Vessel Sharing Agreement) operations have positive effect to the carriers as well as to the customers. Through the VSA, carriers are able to set up expanded service coverage network with through cost sharing. If VSA were not allowed service coverage would be

PUBLIC VERSION

limited as single carrier cannot operate on own network due to high costs.

- We are currently operating the VSA in the Asia/Europe trade within 30%

Section B: Questions about the North Atlantic Trade (North Europe/U.S.)

5. [Confidential-Restricted] Approximately what percent of your company's freight earnings (lines, OTIs) or shipping expenses (shippers) involves international shipping in the North Europe/U.S. trade? Does your company's business involve US imports (westbound service) only, U.S. exports (eastbound service) only, or both? Please explain briefly.

6. [Confidential-Restricted] How, and to what extent, did the recent economic recession (2008 - 2009) affect your company's liner shipping-related business in the North Europe/U.S. trade? Please explain.

7. Based on your experience prior to July 2008, when the Trans-Atlantic Conference Agreement (TACA) disbanded, did the existence of TACA have any impact on your liner shipping-related business in the North Europe/U.S. trade? If so, please explain.

- We were not a member of TACA and no major commercial impact was experienced.

8. Based on your experience in the period from October 2008 to the present (i.e., since the E.U. block exemption was terminated), has there been any significant change(s) in liner services in the North Europe/U.S. trade that you attribute to the E.U. terminating the block exemption?

For example, changes in:

- a. **the level of freight rates and surcharges;**
 - EU trades have experienced more rate and service volatility than non-EU trades.
- b. **the frequency with which rates or surcharges are adjusted upward or downward (rate volatility);**
 - Frequency of carriers' rates, surcharges adjustments increased as individual carriers are announcing own policies based on individual commercial factors.
- c. **the assessment of surcharges;**
 - There have been higher and less transparent surcharges in this trade, which are necessary for carriers to recover the escalating costs involved in serving this trade.
- d. **the level of competition among ocean carriers;**
 - The level of competition remains the same
- e. **the service contracting practices or terms offered by ocean carriers**
 - More complicated due to a variety of rate structures in the market
- f. **the availability of vessel capacity and container equipment; or**
 - Nothing to do with the EU decisions
- g. **the level or quality of liner services (including customer service, billing accuracy, etc.)**
 - Nothing to do with the EU decisions, although greater volatility makes it more difficult to

PUBLIC VERSION

maintain services and over time this could adversely affect quality and quantity of services/vessels.

9 [Confidential-Restricted] .For CY 2010 to date, please estimate the percentage of your annual business (by volume) in the North Europe/U.S. liner trade that moved under (a) annual (or longer) service contracts, (b) shorter-term freight agreements, (c) spot rates, and (d) other (please specify). Has that changed significantly since October 2008? If so, please explain.

10.Following repeal of the E.U. block exemption, ocean carriers created a global information system under Container Trade Statistics, Ltd. (CTS) in which a majority of ocean carriers serving the North Europe/U.S. trade participate. CTS provides certain data free on its web site, including indices of the carriers' aggregated average revenue per TEU by month. CTS also sells other data. To what extent, if at all, does your company access and use CTS Europe/U.S. trade data, and (if it does so) for what purpose(s)?

We access and use CTS Europe/U.S. trade data for purpose of understanding our market position in this trade.

Section C: Questions about the Transpacific Trade (Far East/U.S.)

11. [Confidential-Restricted] Approximately what percent of your company's freight earnings (lines, OTIs) or shipping expenses (shippers) involve international shipping in the Far East/U.S. trade? Does your company's business involve U.S. imports (eastbound service) only, U.S. exports (westbound service) only, or both? Please explain.

12. [Confidential-Restricted] How, and to what extent, did the recent economic recession (2008-2009) affect your company's liner shipping-related business in the Far East/U.S. trade? Please explain.

13. Based on your experience from January 2006 to the present, have the activities of the Trans-Pacific Stabilization Agreement (TSA) or the Westbound Trans-Pacific Stabilization Agreement (WTSA) had any significant impact on your company's liner shipping-related business in the Far East/U.S. trades? If so, please explain.

- TSA / WTSA is a discussion forum on a voluntary and non-binding basis in discussing exchange of basic market information, manage cost, improve efficiency and develop/recommend basic rate guide as to where market rates are expected for the benefit to carriers and shippers for use during the yearly contract negotiations. The rate guide assists both carriers/shippers in moderating any wild and unpredictable swings in rate levels and provide some stability to the trade. Rates/ surcharges in trades without the anti-trust immunity believe will be more volatile.
- As TSA represents carrier interest in consultations with government regulatory bodies, which

PUBLIC VERSION

assists in carrier understanding of legal and regulatory requirements in various countries. Also through TSA useful data and information about market and industry trends that helps our company to make a more informed business decisions.

- TSA recently has created Carrier – Shipper advisory board in providing means to open dialogue with variety of shippers about discussing common interests by both parties for the purpose of improving the trade conditions.

14. Based on your experience in the period from October 2008 to the present, have there been any significant characteristics of liner services in Far East/U.S. trades that you attribute to actions taken by TSA or WTSA member lines acting collectively? For example:

a. the level of freight rates and surcharges;

- The level of freight rates are more closely related to market supply/demand equations. Charges/Surcharges (Ex : Terminal Handling Charges, Panama Canal Charges, Documentation Fees, etc) are more closely related to recovery of direct cost associated with Ocean transportation of goods.
- Rates and surcharges are revised less frequently in the Trans-Pacific trades than in other major trades where such discussion agreements are not in effect. Main reason supporting above view is that 99% of the cargoes are moved through yearly contract agreements based on agreed terms & conditions.

b. the frequency with which rates or surcharges are adjusted upward or downward (rate volatility);

- Rate agreements are designed to promote rate and service stability. Because of the presence of TSA and WTSA, there is more data available to carriers regarding supply/demand and overall market trends to help make important business decisions. As a result, during the period from October 2008 to present rates were more stable in the Transpacific trades than in other trades, and the frequency of changes in rates was more closely related to trade conditions (market supply/demand). For example, despite the announcement of GRI program in 2009 trade conditions naturally did not allow an increase and revenue performance for the same year ended at -40%.

c. the assessment of surcharges;

- Assessment of charges/surcharges are based on own cost variations and competitions on surcharges exists among carriers. Discussion Agreement establishes suggested guidance and fact –based formulas for some charges that require transparency elements to shippers.

d. the level of competition among ocean carriers;

- Level of competitions among carriers are very competitive and carriers compete vigorously within TSA members as well as non-TSA on rates, charges and services.
- One good example of vigorous competition among carriers will that every year many of the contract shippers are lost and are replaced with new customers.

e. the service contracting practices or terms offered by ocean carriers;

- Terms and conditions are strictly negotiated on a confidential basis by individual carriers

PUBLIC VERSION

f. the availability of vessel capacity and container equipment; and

- Discussion / decisions on vessel capacity/equipments are strictly not allowed within TSA/WTSA. All decisions are individual basis by individual carriers

g. the level or quality of liner services (including customer service, billing accuracy, etc.)

- Same as above item 'f'. All decisions are by individual carriers.

15. [Confidential-Restricted] For CY 2010 to date, please estimate the percentage of your annual business (by volume) in the Far East/U.S. liner trade that moves under (a) annual (or longer) service contracts, (b) shorter-term freight agreements, (c) spot rates, and (d) other (please specify)? Has that changed significantly since October 2008? If so, please explain.

Section D: Questions about the Europe - Asia Trade (Far East/Europe)

16. [Confidential-Restricted] Approximately what percent of your company's freight earnings (lines, OTIs) or shipping expenses (shippers) involve international shipping in the Far East/Europe trade? Does your company's business involve European imports (westbound service) only, European exports (eastbound service) only, or both? Please explain briefly.

17. [Confidential-Restricted] How, and to what extent, did the recent economic recession (2008-2009) affect your company's liner shipping-related business in the Far East/Europe trade? Please explain.

18. Based on your experience prior to October 2008 (i.e., before the Far East Freight Conference (FEFC) disbanded), did the existence of FEFC have any impact on your liner shipping-related business in the Far East/Europe trade? Please explain.

We had been able to take the published FEFC decisions as a reference before.

19. Based on your experience in the period from October 2008 to the present (i.e., since the E.U. block exemption was terminated), has there been any significant change(s) in liner services in the Far East/Europe trade that you attribute to the E.U.'s ending of the block exemption? For example, changes in:

a. the level of freight rates and surcharges;

- Carriers have been announcing their own charges based on individual commercial strategies with no benchmarks or guidelines. EU trades have experienced more rate and service volatility than non-EU trades, meaning market rates were more extreme than actual changes in supply/demand.

b. the frequency with which rates or surcharges are adjusted upward or downward (rate volatility);

- Rate trends were impacted by the E.U. anti-competition law, but generally market actions in all trades are more closely related to trade conditions (market supply/demand). The frequency of rates, surcharges adjustment has also increased.

- c. **the assessment of surcharges;**
 - Assessment of charges/surcharges is based on individual carriers cost structure and commercial decision-making.
- d. **the level of competition among ocean carriers;**
 - The level of competition remains the same
- e. **the service contracting practices or terms offered by ocean carriers**
 - More complicated due to a variety of rate structures in the market
- f. **the availability of vessel capacity and container equipment; or**
 - No change attributable to the EU's decision, but the global recession forced companies to rationalize services and slow steam vessels as cost cutting measures.
- g. **the level or quality of liner services (including customer service, billing accuracy, etc.)**
 - Nothing to do with the EU decisions, although greater volatility makes it more difficult to maintain services and over time could adversely affect quality and quantity of services/vessels.

20. [Confidential-Restricted] For CY 2010 to date, please estimate the percentage of your annual business (by volume) in the Far East/Europe liner trade that moved under (a) annual (or longer) service contracts, (b) shorter-term freight agreements, (c) spot rates, and (d) other (please specify)? Has that changed significantly since October 2008? If so, please explain.

21. Following repeal of the E.U. block exemption, ocean carriers created a global information system under Container Trade Statistics, Ltd. (CTS), in which a majority of ocean carriers serving the Far East/Europe trade participate. CTS makes certain data free on its web site, including indices of the carriers' aggregated average revenue per TEU by month. CTS also sells other data. To what extent, if at all, does your company access and use Far East/Europe trade data, and (if it does so) for what purpose(s)?

- We access and use CTS Europe/U.S. trade data for purpose of understanding our market position in this trade.

Section E: Comparisons Among Trades

22. Based on your experience since October 2008 (since the E.U. block exemption was terminated) are there differences in the characteristics of the Far East/U.S. trade versus the Far East/Europe or North Europe/U.S. trades that you attribute to differences between U.S. and European liner competition regulations? For example, differences in:

- There have been a number of differences between EU trades and non-EU trades since immunity was abolished in the EU. Thus far, there has been greater rate volatility in the EU trades, which if continued will lead to greater volatility in service in terms of trade participants, service quality, and investment. It will take some time to determine the full

impact of the EU's change.

- a. the level of freight rates and surcharges;
- b. the frequency with which rates or surcharges are adjusted upward or downward (rate volatility);
- c. the assessment of surcharges;
- d. the level of competition among ocean carriers;
- e. the service contracting practices or terms offered by ocean carriers;
- f. the availability of vessel capacity and container equipment; and
- g. the level or quality of liner services (including customer service, billing accuracy, etc.)

If so, please explain those differences.

23. Please identify any significant similarities and dissimilarities (for example, cargo volumes, scope or scale of operations, shipper mix, geography, market concentration levels, contracting practices, legal requirements, etc.) that existed in liner shipping markets in the (1) Far East/U.S. trade and the (2) Far East/Europe trade during the period 2006-2010. In your opinion, how (if at all) would those similarities and dissimilarities likely impact a comparison of liner pricing and service behavior across those two trades?

- One dissimilarity is that the US trade is moved by annual contracts while the Europe trade depends on rather short-term rates thus rates fluctuation based on trade conditions are more common compared to the U.S. trade. Larger contract terms and benchmarks utilized in rate agreements mitigate the tendency of liner markets to wild rate swings, as well as below cost pricing practices. Additionally, Europe trade OTI volume share is far greater than the Trans-Pacific trade, and this may grow due to increased complexity and volatility in market.

Section F: Additional Questions for Vessel-Operating Common Carriers

24. [Confidential-Restricted] Please estimate the percentage of your liner revenues (globally) that were earned in each of the following trade lanes during CY 2010 to date:

- a. North Europe/U.S. liner trade
- b. Far East/U.S. liner trade
- c. Far East/Europe liner trade
- d. All other liner trades
- e. Total (all liner trades combined)

If those percentages changed significantly during the 2006 through 2010 period, please describe and explain the change.

25. [Confidential-Restricted] In each of the three major East-West trades, please estimate the percent

PUBLIC VERSION

of cargo your company carried for beneficial cargo owners (BCO) accounts, (b) OTI accounts, (c) other accounts (if any, please explain) during CY 2010 to date:

BCO OTI Other

- f. North Europe/U.S. liner trade
- g. Far East/U.S. liner trade
- h. Far East/Europe liner trade

Has the relative ranking of shipper types in these trade lanes changed significantly during the 2006 through 2010 period? If so, please describe and explain the change.

26 . [Confidential-Restricted] In each of the three major East-West trade lanes, please indicate which lanes have tended to be the relatively most profitable and which was the relatively least profitable for each year between 2006 and 2010 (inclusive). [Write M for most, and L for least.]

Far East/U.S. Far East/Europe North Europe/U.S.

- a. 2006
- b. 2007
- c. 2008
- d. 2009
- e. 2010

If those rankings changed significantly during the 2006 through 2010 period, please explain the reason(s) for the change.

27. Based on your experience during the period from January 2006 to the present, have there been any significant changes in the nature of your business in the North Europe/U.S. liner shipping market related to changes in:

- a. **Seasonality of cargo movements;**
 - Cargo seasonality trend has maintained similar trend since 2006 in the Trans-Atlantic trade.
- b. **Commodity values;**
 - Value of commodity has no direct relationship with carriers revenue earnings
- c. **Directional cargo imbalances (imports vs. exports);**
 - US exports to the North Europe have rather improved than imports. However, trade imbalance exists where U.S. imports is normally moves more volume than export. Equipment reposition is a challenge similar to other major trades.
- d. **Number of carriers serving the trade; or**
 - Data not available

PUBLIC VERSION

e. Minimum scale (# and size of vessels) needed to serve the trade efficiently

- Based on current size of the Trans-Atlantic trade, 3,000TEU ~4,500TEU class will serve the trade efficiently.

If so, please identify and explain those changes.

28. Based on your company's experience in the North Europe/U.S. trade, please identify any substantial changes that occurred in your liner business (operations, marketing, pricing, etc.) in the two years following repeal of the E.U. liner conference exemption (CY 2009 and 2010) as compared with the two years preceding the repeal (2006 - 2007)? If any, please explain.

- Individual carriers have been announcing their own charges/surcharges associated with Ocean transportation of goods based on individual commercial strategies and business factors, with no benchmarks or guidelines. Unpredictable swings in rate levels now more common in the trade as moderating role of conference was eliminated.
- No major changes in carrier operations

29. Based on your experience during the period from January 2006 to the present, have there been any significant changes in the nature of your business in the Far East/U.S. liner shipping market related to changes in:

a. Seasonality of cargo movements,

- Cargo seasonality trend has maintained similar trend since 2006 in the Trans-Pacific trade . Despite severe drop in containerized volume seasonality ratio remained relatively similar to past years

b. Commodity values

- Value of commodity has no direct relationship with carriers revenue earnings

c. Directional cargo imbalances (imports vs. exports)

- Trans-Pacific trade cargo imbalance remains consistent at 2:1 (Imports : Exports)

d. Number of carriers serving the trade; or

- Data not available

e. Minimum scale (# and size of vessels) needed to serve the trade efficiently

- Based on current size of the Trans-Pacific trade 5,000TEU or greater class depending upon port pairs will serve the trade efficiently. EC service due to Panama Canal physical restriction currently serving with 5,000TEU or less class vessels. Deployment of 10,000 TEU class vessels has not been active versus Europe trade due to landside port limitation especially in EC ports.

If so, please identify and explain those changes.

30. Based on your experience during the period from January 2006 to the present, have there been any significant changes in the nature of your business in the Far East/E.U. liner shipping market

PUBLIC VERSION

related to changes in:

a. Seasonality of cargo movements;

- Cargo seasonality trend has maintained similar trend since 2006 in the Trans-Atlantic trade
No big change

b. Commodity values;

- Value of commodity has no direct relationship with carriers revenue earnings

c. Directional cargo imbalances (imports vs. exports);

- Asia / Europe trade has similar imbalance issue as Trans-Pacific trade and re-positioning of empty back to Far East is a challenge (high cost)

d. Number of carriers serving the trade; or

- Data not available.

e. Minimum scale (# and size of vessels) needed to serve the trade efficiently

- Based on current size of the Asia/Europe trade 5,000TEU or greater class depending upon port pairs will serve the trade efficiently. Number of deployment of 10,000TEU class vessels has increased on some port pairs.