

## FMC Slow Steaming Notice of Inquiry Questions

**Identifying Information** (Please provide the information requested below with your NOI response.)

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**Name and Address of Company or Other Entity:** Hapag-Lloyd AG ("HLAG")  
Ballindamm 25  
20095 Hamburg  
Germany

**Type of Company or Other Entity:** *Vessel-Operating Ocean Carrier (VOCC)*

## Questions Directed to Ocean Liner Carriers

1. What does your company see as the advantages and disadvantages of slow steaming?

Advantages:

- Slow Steaming (normally) does not reduce the capacity offered to the trade (subject weekly sailing frequency is maintained)
- Reduced overall consumption of bunkers
- 1 ton of reduced bunker = abt. 3 tons of reduced CO2 emission / production
- Reduction of Carriers' carbon footprints
- Reduction of Shippers' carbon footprints
- More ships in service at reduced costs instead of lay-up (in situations of oversupply / falling demand)
- Meaningful tool against ever rising bunker cost
- No breach of contracts with service providers, incl. ports, as still weekly frequency and the same amount of containers and ships will be handled throughout the year than under normal steaming
- Weekly frequency can be maintained (subject to usual operational feasibility, e.g. weather conditions, port performance, etc.)

Disadvantages:

- More seafarers and equipment needed (crews, vessel and containers)
- May require modifications to engines to adapt vessel to Slow Steaming

**2. What proportion of the ships your company operates in the U.S. trades slow steam? What proportion slow steam outbound from the United States? What proportion slow steam inbound to the United States? Please break this information down by trade lane.**

HL operates (alone or jointly) 20 services / loops to/from the USA in which HL deploys 69 vessels. 8 of these services with 15 HL deployed vessels exercise Slow Steaming = 22%. Breakdown per trade:

Trade	Service	HL vessels	Slow Steam	Direction
Transpacific:	NWX	6	yes	EB/WB
	CCX	0	no	
	PNX	0	yes	EB/WB
	SCX	0	yes	EB/WB
	SSX	0	yes	EB/WB
	PAX	13	no	
	AEX	5	yes	EB/WB
	SCE	1	yes	EB/WB
	NCE	0	yes	EB/WB
	Indamex	3	yes	WB/EB
Oceania:	WAN	2	no	
	WAS	1	no	
Transatlantic:	PAX	same as above (AT-TP pendulum service)		
	AES	3	no	
	ATX	0	no	
	GAX	5	no	
	GMX	6	no	
	MGX	7	no	
	MPS	6	no	
North-South Am.:	GS1	5	no	
	GCS	3	no	

**3. Do you have plans to increase or decrease slow steaming during 2011 and/or the years that follow?**

HL as sole ship operator has no plans to increase or decrease the slow steaming on the inbound / outbound legs to / from the U.S.. Nevertheless, the Grand Alliance, and HL as a member of it, has agreed to run the SCX service, operated by NYK, again with 7 vessels instead of 8 vessels. This, however, will be the only major change for spring time.

**4. What factors help your company decide to slow steam any given service string? What factors cause your company to decide whether to slow steam in one direction only?**

The decision to implement slow steaming on certain services / strings depends on various aspects i.e. if the vessel size of a particular service is to be upgraded from 5500 TEU to 8000 TEU, it will have an impact on the schedule as port times will have to be extended to accommodate the additional volumes. Therefore berth windows need to be adjusted accordingly which, naturally, will leave less time for the ocean transit. This leaves the carrier with two alternatives:

1. Increase speed on the main legs in order to make up for the additional port time, which of course is not desired during a time of high bunker prices and keeping the environmental responsibility in mind
2. Insert an additional vessel in order to accommodate the additional time required, thereby reducing the speed and subsequently CO2 emissions.

If additional vessels are available it should be the preferred option for both carrier and shipper to insert the additional vessel as this will relax the proforma schedule and result in better schedule reliability compared to a rather tight proforma schedule (option 1).

The additional time is therefore distributed via both directions, although most of the additional time available may be allocated to the weaker leg in order to still provide competitive main leg transit times.

In any event Slow Steaming provides environmental benefits and causes less environmental impact, as each 1 ton of saved bunkers reduce CO2 production by abt. 3 tons. The financial benefit for HL is less predictable, as it depends on a number of factors, i.e.:

- Bunker price
- Charter Market (price for additionally needed vessels)
- additional costs for longer container turn-around-times (requires extra equipment)
- Port Performance
- Weather conditions during sea voyage and port stays, e.g. if a vessels would become delayed in Asia due to a port closure, Slow Steaming cannot be materialized as the delay needs to be remedied.

A longstanding fixed “break even point” can, therefore, not really be given, as it is subject to those factors which tend to fluctuate considerably and not necessarily at the same time or towards the same direction.

5. In the past year, by how much (i.e., absolute amount and as a percent of the total) has your company reduced its bunker consumption, bunker fuel expenses, and carbon emissions as a result of slow steaming ships in U.S. ocean liner services?

**Confidential material excluded !**

6. Do you make this information on fuel, cost, and emissions savings available and transparent to your customers? If not, do you have plans to, and what is your goal date? If not, why not?

A more general explanation can also be found on the HLAG website (at “Archive Customer News”). The relevant extract is attached below. The formula is based on the effective global bunker consumption of HLAG and can – due to this sensitive data – not be published in detail.

The actual HLG Bunker Charge (BUC) can be found on the HLAG website, either in form of a trade wise customer info or by running a specific rate-query online.

A growing number of shippers are requiring information on carbon emissions. Besides other operational and technical measures Slow Steaming is an opportunity to save resources. It

- reduces carriers’ carbon emissions
- reduces shippers’ supply chain and product carbon footprint

Upon request our customers receive information on the environmental impact of Slow Steaming.

Extract from the HL Customer Info of June 2008 in relation to introducing the BUC:

QUOTE

#### **Hapag-Lloyd Bunker Charge (BUC)**

The Liner Shipping conferences serving Europe will be deregulated as per October 17, 2008. Correspondingly, Hapag-Lloyd is reviewing all of the freight components. The separate Hapag-Lloyd customized tariff items will be introduced step by step.

This process will be started from July 1, 2008 onwards with the implementation of the Hapag-Lloyd Bunker Charge to replace existing trade related bunker formulas step by step. Your local Hapag-Lloyd sales office will inform you individually about the relevant implementation dates.

Our Bunker Charge is based on a uniform formula considering our global bunker consumption, the actual bunker price development and predominantly the individual trade particulars, such as transit times. Thus it is simple, fair and easy to be monitored.

Customers will appreciate, however, that commercially sensitive actual values of the individual components of our formula cannot be released.

The Bunker Charge will be reviewed monthly and updated if a trigger of +/- USD 5.00 is reached. Changes to the Bunker Charge will be announced with 30 days notice.

#### UNQUOTE

Note: The HL BUC does not apply on the Transpacific Trade where HL decided, on a voluntary basis, to follow the recommendations given by TSA / WTSA.

#### **7. Do you offer shippers, over the same trade lane, different transit times by reason of slow steaming vs. normal steaming?**

Generally HL is not offering one Slow Steaming plus one alternative non-Slow Steaming Loop for the same service. However, there are certain major port-pairs that are served by different services and thus may offer different transit times.

#### **8. Have you passed cost savings along to shippers through adjustments to any bunker surcharge formulas, or by lowering rates? If not, do you have plans to, and what is your goal date? If not, why not?**

HL customers will not notice what impact Slow Steaming, if any, has on their HL Bunker Charge (BUC), as the HL BUC is not differentiating between impact caused a) by bunker price developments and b) slow steaming. However, it is a complex calculation taking into consideration – amongst other factors – the reduced speed through a reduced global consumption.

The BUC is not calculated separately for Slow Steaming and non-Slow Steaming loops. Thereby the whole shipper community is benefitting from reduced Bunkers through BUC, whilst they do not at the same time participate immediately in any Slow Steaming related increased costs (extra vessel etc.).

Freight rates are normally not effected by slow steaming. Freight is earned for the transport, irrespective of speed. Customers did / do also not pay for faster transit times.

For the Transpacific Trade east-/westbound HL follows the TSA / WTSA bunker formula. These Voluntary Discussion Agreements have been reviewing the impact of Slow Steaming on the bunker formula but have not yet come to any conclusion. The initial studies suggest that any savings to carriers are largely offset by extra vessel / equipment cost. However, further studies / analysis will be undertaken and these will be advised to the FMC separately by the TSA / WTSA

**9. Are there any costs incurred by the ships your company is slow steaming that would not accrue if they were operating at normal service speed and, if so, what are these costs and how significant are they?**

Slow Steaming requires certain adjustment to the vessels main engines. These one-off costs are in the range of abt. US\$ 200.000 per vessel (as per Dynamar Slow Steaming Report of 2010). This is a rather minor costs per produced TEU over the remaining lifetime of a vessel, but they have to be borne at once over a relatively short time for a substantial part of the fleet.

**Confidential material excluded !**

**10. What factors constrain your company's ability to slow steam more services or to further slow down ships that are already slow steaming (i.e., super-slow steaming)?**

- Availability of vessels
- Competitiveness in the market
- Vessels are not able to perform Super Slow Steam due to technical constraints

**11. How many vessels do you add to service loops that begin slow steaming for part or all of the loop? Are there instances where vessels are not added?**

HL has not exercised Slow Steaming without adding an additional vessel. Usually it is one vessel per such loop.

**12. Is your company adding new vessels to your fleet to accommodate slow steaming?**

No; no new buildings are added to the fleet specifically to address Slow Steaming. Slow Steaming demand is usually accommodated by existing or chartered tonnage.

**13. Are new ship designs incorporating hull and propulsion engine innovations to better accommodate slow steaming?**

[Derating ensures clean and efficient operations](#)

Hapag-Lloyd reduces the performance of its ship main engines through a process known as derating.

Through derating the power of our main engines are reduced retroactively by removing one of several turbochargers and aligning certain engine parameters. The adjustment of the engine power to slower speeds guarantees a more economical and significantly more environment friendly operation of our ships. A higher scavenge air pressure of the remaining turbochargers also results in a cleaner combustion in the engine and additionally increases the fuel savings achieved by slow Steaming.

All of Hapag-Lloyd's 8.750 TEU-class vessels have been derated since the beginning of December 2009. Further ships will follow.

**14. How has slow steaming impacted your company's on time performance of sailing schedules?**

HL has been able to maintain the past performance.

**15. Are some shipper accounts more affected by slow steaming than others? If so, please explain. What measures has your company taken to try to mitigate any adverse impact of slow steaming on specific shipper accounts?**

We are not aware of any specific group of shippers more affected than others by slow steaming - positively or negatively.

**16. To what extent has slow steaming affected your company's ability to maintain or expand capacity in the U.S. trades and/or its ability to maintain adequate availability of containers at appropriate inland locations?**

Slow Steaming has not affected HLAG's ability to maintain or expand its capacity in the USA.

Slow Steaming has not affected HLAG's ability to maintain adequate availability of containers at appropriate inland locations.

**17. Do you believe slow steaming is sustainable over the long-run? Please explain why or why not.**

Given the prediction that overall maritime transport will triple within the next 20 years, while on the other hand it is the declared aim of governments (local, national, regional) to substantially reduce carbon emissions, various measures have to be taken. One of them being speed reduction (Slow Steaming).

An increasing number of responsible shippers have defined their own individual carbon footprint reduction goal which they will only be able to achieve if all parts of the value chain contribute to this goal.

Additionally, there is a steady increase in consumers' environmental awareness resulting into a growing demand for shipping alternatives with reduced carbon footprint.

Furthermore it is highly unlikely from a today's perspective that the bunker prices will fall again to levels of US \$ 2-300 per ton, which – amongst other parameters – is seen by some analysts as a kind of breakeven point, below which Slow Steaming becomes uneconomic. Both arguments could be overruled by drastic technology developments, but such are not foreseeable at this stage.

The supply chain will have to adapt to these circumstance and perhaps has to improve at other links in the chain, such as container stay times at the ports and warehousing etc..

**Slow Steaming does not reduce the capacity provided to a trade !** It just reduces the amount of idle capacity at a global level. Idle capacity is wasted capital that could better be used in financing ships in operation. So Slow Steaming is lastly to the benefit of all stakeholders and will help to maintain viable services.

**18. If your company participates in one or more vessel sharing arrangements (“VSAs”), describe whether and to what extent VSAs are positively or negatively impacted by slow steaming.**

HL is a member of the Grand Alliance, where decisions regarding schedule adjustments are discussed and agreed on a unanimous basis. However, Slow Steaming is not part of such discussions.