



MEDITERRANEAN SHIPPING COMPANY S.A.

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Karen V. Gregory, Secretary
Federal Maritime Commission
800 North Capitol Street, N.W. Room 1046
Washington, D.C. 20573 - 0001
United States of America

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OFFICE OF THE SECRETARY
FEDERAL MARITIME COMMISSION

Dear Ms. Gregory

FMC solicitation of views on the impact of slow steaming

This message is in response to the Commission's Notice of Inquiry into the impact of slow steaming issued on January 31, 2011.

MSC Mediterranean Shipping Company S.A. ("MSC") is a worldwide carrier and involved in several trades connecting with the United States of America. These may be broadly divided into the transpacific trade, the transatlantic trade, and the trade between South America and North America. Because of the differences in these trades the answers to the Commission's questions are not necessarily the same for each trade. No slow steaming is taking place on MSC's trades between South America and North America and therefore the views of the persons running that trade has been given less weight than the views of persons running the transatlantic and transpacific trades, in the answers below. If there is a marked difference between the views of the persons running the trades that will be noted in the answer. The answers are a "snapshot" of the current situation; the market continues to be volatile and MSC reacts to the market.

Turning now to the Commission's questions directed to Ocean Liner Carriers, and using the same numbering, the responses are as follows:

1. The advantage of slow steaming is to reduce the amount, and therefore the cost, of bunkers (fuel) consumed during each rotation by each vessel in the service. The consequence is a beneficial decrease in carbon emissions. If the line has a surplus vessel that is in the correct size range (which is not always the case), and slow steaming is appropriate in the market (see below), then by slow steaming the line can use vessels for which otherwise there would be no employment. The disadvantage of slow steaming is that the transit time is extended, which can be bad for some customers and for business. Also it is necessary to set against the bunker cost savings the increased costs to carry the same amount of cargo; slow steaming services still have the same frequency.



Typically this is the cost of running an extra vessel. A special problem that arises from slow steaming is that the cycle time before a container is available for reuse is extended and this has caused container shortages. In addition there is now an extra vessel in the string of vessels providing the service, which needs to be filled with containers. It should be remembered that container lines do not make their income directly from operating the vessel, but from providing to their customers the containers that the vessels carry. Being short of enough containers to fill the vessels is detrimental to income.

2. All of MSC's vessels in the transatlantic services are currently slow steaming. On the transpacific services MSC's vessels are only slow steaming on the return leg to Asia.

3. There are no current plans to change any of MSC services to slow steaming or to end slow steaming, in so far as it is possible to see ahead. Theoretically we would hope that our "crystal ball" can see to the end of the year. However everything is related to the market and so long as our competitors offer the same transit time slow steaming by MSC will remain a fact. However if our competitors changed their policy MSC has to compete to be able to win cargo, even if it might be against our financial interest to do so. For example, we understand that Maersk has, or may be, about to change its policy and end slow steaming. In that case MSC will have to review its position depending upon the effect of that on the market.

4. The main factor is the market. MSC must compete with its competitors and if our competitors take the decision to move in a different direction, we will likely follow because we have little choice. Therefore if our competitors reduce slow steaming that puts pressure on MSC to do the same so as to be able to offer competitive transit times to customers. On the other hand if our competitors start slow steaming in a particular trade it is in our interest to do the same. Such changes start with the action of one or more important lines or consortia, and the market reaction determines if others follow.

5. This is a difficult question to answer because services are never static. In a given service the ports of call and the port rotation may change during a year. In addition vessels used in the service may also change for various operational reasons. Even if the replacement vessels are of the same size they may have different characteristics leading to different levels of fuel consumption. Some vessels produce better results than others when engaged in slow steaming. The amount of fuel used by a vessel in the same service may vary on different voyages due to a number of factors, such as, draft, trim, weather, seasonal variations in ocean currents and the current position in the vessel's maintenance cycle, for example dry docking which typically takes place every 24 to 30 months. Putting these various considerations to one side, the answer in



relation to the "past year" is that on the whole there has been no change, because on the whole there has been no change to our services: slow steaming is more the one year old.

6. No, and we have no plans to do so. The reason is that, as explained above, this is a rather complicated matter and it depends on the knowledge and sophistication of the customer about our business how much of what we say they can understand. We do provide presentations for important customers on request to show what we are doing. The average large shipper has no idea of the financial numbers involved, and for example typically thinks the annual bunker cost to a line such as MSC is measured in the millions of dollars when in fact it is in the billions of dollars.

7. No.

8.

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9. Yes. Because the transit time is increased the cost of the use of every vessel in the string increases, i.e. the time charter rate paid to the owner, or the bare boat charter rate plus expenses (such as crew costs, management costs, maintenance costs, etc). In addition there can be technical costs, such as needing to change the fuel injectors on the main engine to optimise vessel performance at slower RPM, but these are usually quite small. Also there is the cost of leasing the extra containers needed to fill the slots on the extra vessel.

10. Please see above in relation to our comments on the market situation. MSC is not engaged in any super slow steaming. It needs to be appreciated that the number of port calls and the number of container moves at each port has a big impact on transit time. In the transpacific trade all lines pricing is oftentimes



very competitive among various lines and consequently the critical issue in that trade to win cargo is the transit time.

11. It is not possible to slow steam without adding an extra vessel. Therefore at least one extra vessel has to be added to begin slow steaming. There are no instances where it is or has been possible to commence slow steaming without adding a vessel into the service. Also please note our comments in the answer to question 10 regarding the importance of ports of call and the number of container moves at each port. If the transit time is short it is impossible to slow the speed of the vessels down to a point which would permit more than one extra vessel to be inserted. The point is, there are also limits to slow steaming. The bunker savings available by slow steaming are counterbalanced by the cost of the extra vessel. When the bunker price was high and the cost of vessels per day was low (for example during part of last year), the decision was easy. Currently vessels are expensive, which affects the calculation.

12. No. When larger vessels are brought in the older smaller vessels are "cascaded" down to other services, increasing the carrying capacity on those services. It is preferable to create extra strings for new vessels, but the market is not good enough to support that.

13. All the new vessels currently being delivered to MSC were ordered before the crisis that led to slow steaming commenced. It is possible to make some modifications to the machinery, however only the most modern designs now being ordered have engines which are designed to be capable of sustained super slow steaming.

14. Sailing schedules per se have nothing to do with slow steaming. However, ignoring other factors, arrival and departure punctuality has improved because of the speed buffer available in each vessel schedule. That is to say the vessel can be speeded up to make up lost time. Customers seem to be very happy with improved punctuality.

15. There has not been a choice available to customers, so far. All carriers have implemented slow steaming where possible. If the shippers had the choice they would make it, which has been stated above. That said there have been no particular complaints from customers about slow steaming, other than some customers saying that they need increased stock. It is impossible to mitigate any effects of slow steaming. We would like to add that the benefits of slow steaming vary according to the transit time and the size of the vessels used in the trade. If the transit time is short, the vessel does not spend much time at sea, and the saving in bunker costs reduces. Similarly if the vessel is small, the savings in bunker costs for the reduced speed are considerably smaller than for a larger vessel. This can make the economic benefits of slow steaming



marginal, and the cost of the extra vessel (which as already mentioned is itself a variable) becomes increasingly important. These factors, together with a much higher proportion of time sensitive perishable cargo, is why there is no slow steaming in the South America to North America Trade.

16. Slow steaming has not affected the capacity of any service. The service frequency remains the same and therefore the service string's capacity to carry cargo remains the same. As mentioned above, it would have been preferred to put new vessels into new strings, however it is the market that determines whether that is possible or not, not slow steaming itself. Because the service frequency remains the same, slow steaming has no effect on maintaining an adequate availability of containers, if there are adequate containers available to keep the string of vessels filled. After a period of shortages when slow steaming began the situation has now stabilised so that there are adequate containers available. The availability of containers at US ports and inland locations depends upon the willingness of a line to undertake the cost of repositioning containers into areas where there are shortages.

17. The sustainability of slow steaming depends entirely upon the saving in the cost of bunkers set against the daily cost of the extra vessel.

18. MSC has no such arrangements.

With regard to the general questions directed to all interested parties, we believe that all of the issues raised in these questions have been discussed in the above answers.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Frank Sanford', written over a horizontal line.

Frank Sanford
Corporate Lawyer
MSC Mediterranean Shipping Company S.A.