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**RESPONSE OF ORIENT OVERSEAS CONTAINER LINE TO  
FMC's SLOW STEAMING NOTICE OF INQUIRY**

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OFFICE OF THE SECRETARY  
FEDERAL MARITIME COMMISSION

Orient Overseas Container Line ("OOCL") hereby responds as follows to the Federal Maritime Commission's Notice of Inquiry Solicitation of Views on the Impact of Slow Steaming.

Introduction

OOCL agrees with the background summary in the Notice of Inquiry that slow steaming of a vessel generally helps to reduce carriers' bunker fuel consumption of that vessel and helps carriers respond to important environmental initiatives and concerns.

However, to accurately and completely identify the economic effects on carriers of operating a service under slow steaming, it is not enough to look at fuel savings alone. It is also necessary to take into consideration the asset costs of vessels, volatility of fuel price and utilisation of vessels in that service. In our view, the benefits from slow steaming are more evident if the volatility of fuel price is low, or the utilisation of a vessel is high (comparing 2009 with 2010), and either the corresponding asset costs of the vessels are low when there is an idle vessel pool (12% of global capacity in 2009) or the vessel charter hire rates are low. Absent any of these latter characteristics, while slow steaming would still respond to environmental initiatives, the carrier's operating cost savings can be significantly eroded, even to the point of there being no net economic benefit in some instances.

In this regard, from 2008 to 2010, OOCL's load factor in Eastbound and Westbound of United States are:

		Y2008	Y2009	Y2010
Load Factor %	E/B	85.7%	80.2%	94.3%
	W/B	71.2%	72.0%	74.0%
	Total	79.3%	76.6%	85.2%

Most Westbound service contracts (about 70% in 2009 and 2010) and Eastbound service contracts (around 88% to 93% in 2009 and 2010) had adopted OOCL's bunker fuel charge formula (which is modeled on TSA bunker fuel charge formula) and the rest has its own bunker fuel charge formula but it had function in the same way of responding to fuel price fluctuation.

OOCL's bunker fuel charge formula is based on certain "simple operational assumptions collected of the trade and market environment of US of 2007. The adequacy of the recovery under the formula depends on whether the future trade and market conditions are consistent with the operational assumptions used in the formula. For example, the formula had adopted a utilization assumption at 88.19% to the West Coast; and 91.56% to the East Coast/Gulf and assumed an equipment imbalance of 7% to 8%. This has not been the case, particularly in 2009 and so far in 2011. In addition, the formula has not been sufficiently sensitive to the high volatility of fuel price in recent months. There were many

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periods over the past 2-3 years in which the bunker formula under-recovered OOCL's bunker costs.

This shortfall in recovery was not made up by recovery in the base freight rates. The base rates had historically embedded some form of fixed operating costs but the base freight rates were very depressed in 2009 and parts of 2010 and had not risen correspondingly to the increase in carrier's fixed operating costs including inland intermodal costs, environmental compliance costs or security compliance costs. This resulted in the significant losses suffered by the carriers and Drewry estimated that carriers lost at least \$20 billion in 2009 due to reduced demand and poor rates.

Therefore, considering both the base freight rates and bunker fuel charge, it becomes clear that (i) the base freight rates rise (which was at a level so low in 2009 to be barely compensatory) or the volatility of base freight rates (since late 2010 to now) had not correspondingly covered or adequate in covering the increase in carrier's actual operating costs in the same period including increase costs due to equipment imbalance; rising shore side infrastructure costs or environmental costs; and (ii) the bunker fuel charge formula did not result in full bunker cost recovery in this period of high fuel price volatility. This under-recovery was compounded further by the fact that the adjustment is made only quarterly; and significant equipment imbalance and lower vessel utilisation than that used in the operational assumptions of the formula, resulting in carriers having to absorb a significant portion of the increase in operating costs including fuel price and equipment imbalance.

With this background, OOCL hereby responds to each of the Commission's individual questions directed to ocean liner carriers on the impact of slow steaming.

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**Questions Directed to Ocean Liner Carriers**

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

Advantages

- (i) Reduced total bunker fuel consumption of a vessel;
- (ii) Response to environmental initiatives and concerns including reduction of CO<sub>2</sub> emission and other gases;
- (iii) Provide deployment for vessels that was in an idle pool;
- (iv) Provide additional vessel space to help repositioning of equipment during, for example, 2009/2010, which was a period of major equipment imbalance in the U.S. trades.

(since 2011, (iii) – (iv) have reduced in significance)

Disadvantages

- (i) Requires deployment of additional vessels to ensure service schedule reliability resulting in additional asset costs;
- (ii) Equipment turnaround time prolonged leading to additional equipment requirements and costs;
- (iii) Vessel engine challenged as vessels were from a generation built not for operation under slow steaming resulting in increase maintenance and repair costs.

**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.**

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[REDACTED]

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

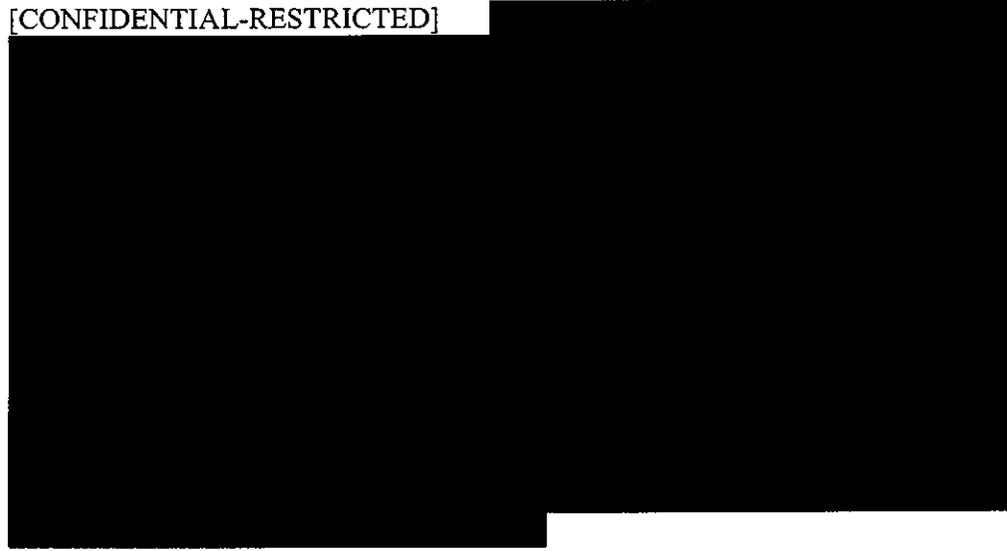
We do not have current plans to increase or decrease services under slow steaming. However, we continuously review product design of our services.

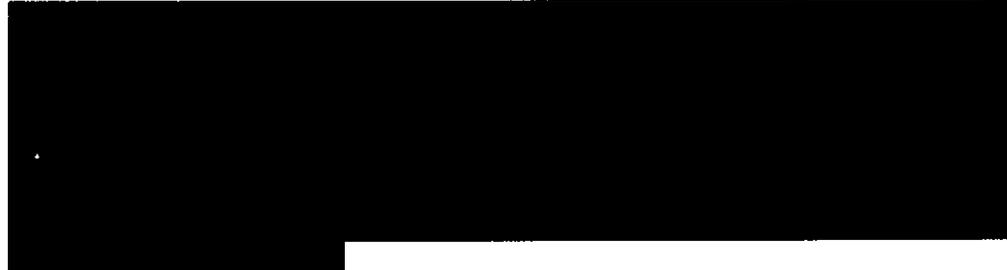
- 4. What factors help your company decide to slow steam any given service string? What factors cause your company to decide whether to slow steam in one direction only?**

A composite of many factors drives the decision. Most significant are vessel availabilities; service schedule integrity; individual customers' specific needs or requests; vessel engine adequacy; fuel costs; equipment availabilities; promotion of environmental initiatives and market requirement.

- 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?**

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- 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?**

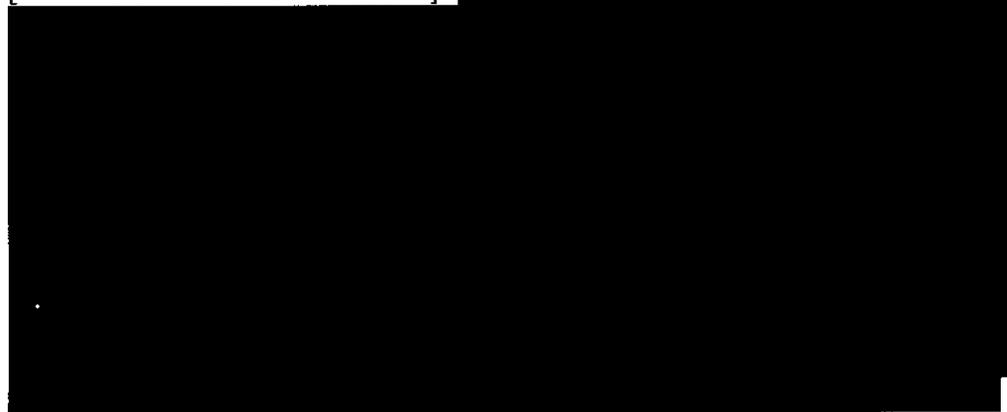
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7. **Do you offer shippers, over the same trade lane, different transit times by reason of slow steaming vs. normal steaming?**

When designing a service, many factors are taken into consideration, including market requirements and the transit times of the services. This process does not differentiate a service that is slow steaming or otherwise.

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?**

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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?**

If utilisation is low, slow steaming can be at a cost to the carriers due to extra vessel costs and additional equipments cost. This is more evident when utilisation is low and asset costs for vessel and equipment are high.

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)?**

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Select customers' requirements for faster transit times due to time-sensitive cargoes; vessel and equipment availability; service schedule reliability; vessel engine adequacy and product design of a service that reflects market requirements. There are significant challenges to a vessel engine in super slow steaming which may result in even higher maintenance costs.

- 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?**

All of our services that slow steam have an additional vessel added to the service.

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

The Company's decision on a product design for a service drives the decision to use an optimal fleet of the vessels for its service. There is no separate independent decision on adding a vessel to accommodate slow steaming.

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

The rise in bunker price will always be an incentive to the containerized transportation industry for the shipbuilding industry to develop new technology to allow optimal deployment of vessels both on fuel efficiency and environmental compliance. Our team of technical engineers would include such design features into our newbuilding program to allow greater flexibility and efficiency to the fleet.

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

With one vessel added under slow steaming, such services have had the benefit of a time buffer and improved service schedule reliability.

- 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?**

Shippers require efficient and quality service and with intense competition from carriers for shippers' cargo, our shippers expect premium service, a global service network, supported by proactive customer services and delivered with advance IT platform. Therefore, any adverse impact to service to shippers will not be tolerated whether from slow steaming or others. OOCL has not received complaints from its customers regarding its implementation of slow steaming.

- 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?**

Our services are driven by market demand and are very competitive; it cannot be constrained by operation methodology. Other than providing deployment for

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vessels that were idle, slow steaming has not had any impact on our capacity decisions.

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

With bunker prices so high, slow steaming may continue. The advantages from slow steaming can be delivered if vessel utilisation is higher and the costs of additional vessel and equipment are lower, which is a reflection of a competitive market environment.

- 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.**

At the moment, our VSA operations are very much the same without any obvious positive or negative impact after slow steaming operation.