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YANG MING GROUP

File

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OFFICE OF THE SECRETARY
FEDERAL MARITIME COMM

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

FMC EU STUDY – RESPONSE TO NOI

Dear Ms. Gregory,

Enclosed please find the response to FMC Notice of Inquiry from Yang Ming Marine Transport Corporation. There are a few responses which we would like to be treated as confidential filing. They are marked as "Confidential – Restricted" in each affected page according to the instruction of the NOI. The non-confidential responses will be submitted by e-mail at the same time.

Sincerely,

Spring C.C. Wu
President
Yang Ming (America) Corp

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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.

ANS:

Conferences provided a forum for member lines to exchange information on trade, infrastructure and cost issues. Conferences represented member lines in dealings with the media, shipper groups, and government authorities. They also served to deal with other interested parties on higher level industry issues, and facilitate trade practices. Conferences also recommended voluntary rate guidelines and tariffs that are fact-based, reasonable, and predictable to the shippers.

Since the termination of exemption in October 2008, we are no longer able to benchmark the conference tariff and surcharges, and have had to handle public relations and other issues independently. To that end, we have, at our expense and at a detriment to our available resources, assigned a new dedicated team whose functions are to ensure EU compliance, develop trade intelligence collection, ensure tariff maintenance, and develop and provide employee education. Overall, there have been more constraints in daily business activities, and the cost of doing business has increased as a result

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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.

ANS:

It is difficult and too early to evaluate whether any class of shipper or VOCC received a competitive advantage or disadvantage since October 2008. It may take longer than expected to determine the real economic impact resulting from the termination of the exemption. Moreover, the economic turbulences during the past two years added complexity and difficulty to the analysis of cause and effect.

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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.

ANS:

Businesses for U.S. and E.U. are handled by two different groups of people, both at headquarters and local level, so there are no big issues internally. Shippers whose business involves both U.S. and E.U. trades may question the different practices and regulations from time to time. Other than that we do not see any major commercial problems directly related to the differences of liner shipping competition regulations between U.S. and E.U. In terms of service planning, the E.U. has more constraints with respect to vessel sharing agreements and communications among carriers, which have made it more difficult for developing new capacity injection, maintaining existing service rationalization, and introducing new pendulum service connecting U.S , Asia and E U.

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.

ANS:

Because container shipping is highly capital intensive, and since each carrier has a different group of customers and cost structure, most shipping lines would not be able to offer complete service coverage at reasonable cost without participating in operational agreements. Operational agreements have a very positive impact on service availability, and help control the cost of liner shipping services. Such agreements enable member lines to offer wider port coverage, more sailing frequency, higher level of service quality, and faster transit time. At the same time, operational agreements help to preserve competition among member lines and provide shippers with more choices of services and service providers. Operational agreements improve economic and environmental efficiency and make it possible for smaller carriers to compete, which in turn generate cost saving for shippers and the economy.

The E.U market share threshold of 30% poses a threat to future capacity growth and service rationalization of the trade. The threshold makes it almost impossible for two or more alliances to share services and reduce cost For alliances or independent carriers whose market share is nearly 30%, they will face constraints and obstacles when attempting to expand services or inject new capacity. Therefore, the impact of the 30% threshold may not be positive to operational agreements and the economy.

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

5. 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.

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ANS:

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6. 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.

ANS:

Volume dropped between 40% and 60%, and revenue dropped around 60% compared to the previous years.

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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.

ANS:

We were not a member of TACA, so the existence of TACA did not have much impact on our business In our opinion, the North Europe/U.S. trade has become more volatile and unpredictable after the disbandment of TACA.

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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;

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; or

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

If so, please identify and explain those changes.

ANS:

Based on our experience, the supply/demand equation, individual shipper's service requirements, and each individual carrier's cost structure and business strategy are the major driving forces of freight rate level and surcharges Carrier conferences do not take actions on capacity, equipment, service contracting practices, service quality, and customer service issues. Since the termination of the exemption, freight rates and surcharges have been more volatile and tend to move to the extremes, and there have been more frequent rate adjustments by individual carriers as a result However, it may not be appropriate to only attribute these changes directly to the termination of exemption, because the unique economic conditions in 2008-2009 also had a significant impact on the trade

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9. 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.

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ANS:

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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)?

ANS:

We are not a member of CTS in the North Europe/U.S. trade and we do not access CTS' trade data.

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

11. 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.

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12. 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.

ANS:

U.S. imports. volume dropped 20%; rates dropped 30%

U.S. exports: volume dropped 16%; rates dropped 24%

In response to the drastic decline of volume and rates, we independently adjusted our service strings and reduced capacity to adapt to the market demand

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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.

ANS:

The TSA and WTSA have been a good platform for member lines to share industry-wide issues such as infrastructure, supply/demand forecast, and environmental initiatives, which help our company maintain cost control, and initiate and develop environmental efforts. They also enable member lines to jointly communicate with shippers on issues of common interest by means of press releases and shipper meetings, which makes shipping and contracting simple and stable. The voluntary guidelines of rates and surcharges enhance transparency, visibility and stability of the trade, and offer reliable negotiation benchmarks to both shippers and carriers.

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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;

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 identify and explain those characteristics.

ANS:

As discussed in Response 13 above, our experience is that TSA/WTSA have promoted stability in the trade, promoted transparency, and have provided a valuable information sharing function. For example, TSA/WTSA implemented new recommended formulas that reformulated the floating bunker charge to a more transparent calculation, offering lower quantum, smaller sensitivity, and longer stability. However, all TSA and WTSA guidelines are voluntary and non-binding and member lines are not obliged to abide by the guidelines Competition between the lines is, and always has been, considerable. Moreover, the rates finally agreed to with shippers are strongly influenced by each line's business strategy, supply/demand equation, and individual shippers' service requirements. The TSA and WTSA do not take actions on capacity, equipment, service contracting practices, service quality, and customer service issues, so there is no impact in that regard.

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15. 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.

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

16. 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.

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17. 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.

ANS:

Volume dropped between 10% and 20%, and rate dropped around 50%. In response to the drastic decline of volume and rates, we adjusted our service strings and reduced capacity to adapt to the market demand.

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.

ANS:

The FEFC have been a good platform for member lines to share industry-wide issues such as infrastructure, supply/demand forecast, and environmental initiatives, which help our company maintain cost control, and initiate and develop environmental efforts. They also enable member lines to jointly communicate with shippers on issues of common interest by means of press releases and shipper meetings, which makes shipping and contracting simple and stable. The voluntary guidelines of rates and surcharges enhance transparency, visibility and stability of the trade, and offer reliable negotiation benchmarks to both shippers and carriers.

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,

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 identify and explain those changes.

ANS:

As discussed in Response 13 above our experience is that carrier conferences have promoted stability in the trade. promoted transparency, and have provided a valuable information sharing function. For example. TSA/WTSA implemented new recommended formulas that reformulated the floating bunker charge to a more transparent calculation, offering lower quantum. smaller sensitivity and longer stability However, all carrier conferences guidelines are voluntary and non-binding, and member lines are not obliged to abide by the guidelines Competition between the lines is, and always has been, considerable. Moreover the rates finally agreed to with shippers are strongly influenced by each line's business strategy. supply/demand equation. and individual shippers' service requirements. The carrier conferences do not take actions on capacity, equipment, service contracting practices. service quality and customer service issues. so there is no impact in that regard.

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20. 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.

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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)?

ANS:

We access the aggregated revenue, capacity and volume data to help our service planning and marketing activities. We also access historical volume data to evaluate the performance of ourselves and competitors.

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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:

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.

ANS:

Since the termination of E.U block exemption. we have observed more frequent upward rate adjustments in the Far East/E.U. trade than in the Far East/U S. trade during the upturn period of the market Moreover. surcharges such as floating bunker (or Bunker Adjustment Factor) have become diversified in the Far East/E.U. trade, while the Far East/U.S. trade has a consistent bunker formula adopted by most shippers and carriers

Other than the above, there are many differences in the characteristics of the three trade lanes, such as freight rate components. surcharges. contracting practices. frequency of rate and surcharge adjustments. service requirements. etc., most of which have been in existence long before October 2008 and cannot be attributed directly to the differences of regulations between the U.S and E.U authorities.

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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?

ANS:

The significant similarities of the two trade lanes are as follows:

- Geography: China is by far the largest cargo origin for the head haul of the two trade lanes. China is also the fastest growing cargo destination for the back haul of both trades. E.U. ports and U.S. East Coast ports have similar distances to China main ports; however U.S. West Coast ports are much closer to China
- Commodity. Major commodities for the head haul are similar, for example, finished goods such as general merchandise, furniture, wearing apparel, shoes, toys, E goods, consumer goods, and building materials, etc. As for the back haul both trade lanes have significant volume of raw materials such as waste paper and metal scrap.
- Competition: Most of the top 20 VOCCs and top 10 NVOCCs in the world operate in both trade lanes.
- Volume growth: Both trade lanes saw continued volume growth from 2006 to 2008. Both saw drastic decline in 2008-2009 and fast recovery in 2010. Vessel size for both trade lanes continued to upgrade.
- Security requirements Both U S and E U have requirements on cargo security and advance manifest filing, which increases carriers operating expense

The significant dissimilarities are as follows:

- Infrastructure: Most E.U. ports are capable of handling mega size vessels (over 8000 TEU) while most U.S. ports are not. The Suez Canal can accommodate mega size vessels while the Panama Canal cannot handle vessels over 5000 TEU as of right now. Feeder and barge services are popular in the E.U. while the U.S. relies more on railroads and trucks.
- Labor: By comparison, it has been in our experience that the labor unions at U.S. ports have stronger political influences than their counterparts in the E U. Statistically, the E.U. ports are generally more productive and more flexible, while vessels calling the U.S West Coast ports (specifically LA/LB) require longer port time.
- Shipper mix: In general, BCOs in the Far East/U.S. trade have bigger volumes and stronger bargaining power than those in the Far East/E.U. trade, especially in the case of

large U.S. BCOs, who continue to have considerable leverage during contract negotiations, and have generally been more dominant than carriers in contract terms and rates.

OTIs are active in both trade lanes, but they account for a much bigger portion in the E U than in the U S.

- Legal requirements and contracting practices: The U.S. requires service contracts to be filed with FMC, while the E.U. does not have such requirements. The U.S. also requires a 30-day notice of any rate increase and new surcharges. Most of the cargo is moving under annual service contracts in the Far East/U.S. trade lane, but short term rate quotation is the prevailing form of rate agreement in the Far East/E.U. trade. Shipper and carrier commit stable rates, service and volume in annual service contracts. On the contrary, there is no obligation from either side with the short term rate quotation. The E.U. no longer allows carrier conferences so there are more varieties of rates and surcharges, while the U.S. trade lane has similar surcharge items and tariffs shared by majority of carriers.
- Equipment and service requirements: Carriers typically provide chassis in the U.S. but not in the E.U. Door delivery and Intermodal services are much more common in the U.S , while port delivery is by far the most popular service mode in the E.U

Impact on lines' pricing and service behaviors due to the similarities and dissimilarities of the two trade lanes:

- Port coverage and alliance partners: The port coverage in Far East is similar in the two trade lanes, and most carriers choose to operate with the same alliance partners on both trades.
- Number of vessel: Due to longer distance, the Far East/E U and Far East/U.S East Coast services require a minimum of 8 or 9 vessels, while the Far East/U S West Coast services only need between 4 and 6 vessels.
- Vessel size. As the E U. port infrastructure and Suez Canal are capable of handling mega vessels, average vessel size of this trade is much bigger than that in the Far East/U.S trade Most carriers deploy 8000 TEU or bigger vessels in the Far East/E.U trade to pursue economy of scale, and smaller vessels like 5000 TEU or 3000 TEU are cascaded to Far East/U.S. trade.
- Service mode and rate components: There are more tailor-made services offered in the U.S. trade, including intermodal, door delivery, customized contract terms, free time, billing and EDI services, etc Consequently, all-inclusive, fixed annual pricing (including U.S THC, inland haulage, etc) is very common. For the E U trade, most cargo is delivered to port and the service requirements are more homogeneous, therefore traditionally the pricing consists of separate and standardized rate components like THC,

inland haulage tariff, out-port add-on, etc, in addition to the ocean freight which usually fluctuates quarterly.

- Marketing strategy: Due to the dissimilarities of shipper mix, service requirements and contracting practices, the U.S. trade is more inclined to pursue annual service contracts with shippers who commit stable volume, while the E.U. trade tends to offer short term rates and pursue highest paying spot cargo.

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Section F: Additional Questions for Vessel-Operating Common Carriers

FOR VOCCs ONLY:

24. 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) 100 %

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

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

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26. 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.

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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,

b. Commodity values;

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

d. Number of carriers serving the trade; or

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

If so, please identify and explain those changes.

ANS:

The North Europe/U.S trade lane has been a highly matured market long before 2006, and we have not observed any significant changes in terms of seasonality, cargo value, cargo imbalances, number of carriers and minimum scale except for the year of 2009 when the global economic downturn caused many carriers to suspend services or downsize capacity.

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

ANS:

We had to downsize our capacity and adjust our marketing to focus more on sustainability instead of rate competitiveness during the year of 2008-2009. However, in our opinion this is largely attributable to the global economic downturn. As we were not a member of TACA, the repeal of E.U. exemption and the subsequent disbandment of TACA did not have much impact on our business.

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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

b. Commodity values

c. Directional cargo imbalances (imports vs. exports)

d. Number of carriers serving the trade; or

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

If so, please identify and explain those changes.

ANS:

We have seen some changes with seasonality of cargo movement. cargo imbalances, number of carriers, and vessel size in this trade as follows:

a Seasonality of cargo movements

In the year of 2010. the U.S. import volume peak shifted from traditional August/September to June/July period due to emergent inventory replenishment by U S importers Other than this exceptional shift. the seasonality of both U S imports and exports has been similar over the past five years.

On the Far East side. as we continue to enlarge our capacity in China over the past years. the seasonal effect of the Chinese holidays like Chinese New Year. Labor Day. and China National Day has become more significant. There is significant cargo rush two or three weeks before the holidays. followed by a significant two- or three-week drop after the holiday

c. Directional cargo imbalances (imports vs exports)

Some importers have already relocated or are going to relocate inland distributions centers to West and East Coast ports in order to avert the rising inland transportation cost. At the same time. U S export volume of agriculture products from inlands continued to increase over the past five years. except for the year of 2009 when there was a slight decrease As a result. the import/export imbalance in inland points has significantly improved Moreover. the overall import/export imbalance of the trade has improved from 2.1 in 2008 to 1 8:1 in 2010.

d Number of carriers serving the trade

Many carriers have reduced service loops or capacity in 2009 to adapt to global economic downturn In the second half of 2010 when the demand recovers. a few new carriers entered the trade. but their capacity and service scope are not comparable to other major carriers

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

The mainstream of scale and vessel size was 4 or 5 4000-5000 TEU size vessels for Far East/U.S. West Coast services and 8 or 9 3000-4000 TEU size vessels for U.S. East Coast services prior to 2007. As the volume continues to grow and fuel price continues to rise, the requirements of number of vessels and vessel size have increased. The U.S. West Coast services now require 5 or 6 5000-7000 TEU vessels, and the U S. East Coast services require 9 or 10 4000-5000 TEU vessels to be efficient and cost competitive.

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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 related to *changes* in.

a. Seasonality of cargo movements;

b. Commodity values;

c Directional cargo imbalances (imports vs. exports);

d. Number of carriers serving the trade; or

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

If so, please identify and explain those changes.

ANS:

We have seen some changes with seasonality of cargo movement, cargo imbalances, and vessel size in this trade as follows:

a. Seasonality of cargo movements

As we continue to enlarge our capacity in China over the past years, the seasonal effect of the Chinese holidays like Chinese New Year, Labor Day and China National Day has become more significant. There is significant cargo rush two or three weeks before the holidays, followed by a significant two- or three-week drop after the holidays.

c. Directional cargo imbalances (imports vs exports)

The E.U. import and export imbalance has improved since 2008. In our case, the imbalance ratio improved from 2.2.1 in 2008 to 1.8:1 in 2010 This can be attributed to stronger export from Germany, France, Italy and Turkey, and the growing demand and purchase power of China.

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

The mainstream of scale and vessel size was 8 or 9 5000-7000 TEU size vessels for Far East/E.U. services. As the volume continues to grow and fuel price continues to rise, the requirements of number of vessels and vessel size have increased The E U services now require 9 or 10 8000-10 000 TEU vessels to be efficient and cost competitive

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