

January 31, 2011

FEDERAL MARITIME COMMISSION

NOTICE OF INQUIRY

SOLICITATION OF VIEWS ON THE IMPACT OF SLOW STEAMING

AGENCY: Federal Maritime Commission

ACTION: Notice of Inquiry

SUMMARY: The Federal Maritime Commission (“FMC” or “Commission”) is issuing this Notice of Inquiry (“NOI”) to solicit public comment on the impact of slow steaming on U.S. ocean liner commerce. Generally, the Commission seeks public comment as to how the practice of slow steaming has 1) impacted ocean liner carrier operations and shippers’ international supply chains; 2) affected the cost and/or price of ocean liner service; and 3) mitigated greenhouse gas emissions.

DATES: Responses are due on or before April 5, 2011.

ADDRESSES:

Submit comments to:

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

Or e-mail non-confidential comments to:

secretary@fmc.gov

(e-mail comments as attachments preferably in Microsoft Word or PDF)

FOR FURTHER INFORMATION CONTACT:

Austin L. Schmitt, Director
Bureau of Trade Analysis
Federal Maritime Commission
800 North Capitol Street, N.W.
Washington, D.C. 20573-0001
Telephone: (202) 523-5796
E-mail: aschmitt@fmc.gov

SUPPLEMENTARY INFORMATION:

Submit Comments: Non-confidential filings may be submitted in hard copy or by e-mail as an attachment (preferably in Microsoft Word or PDF) addressed to secretary@fmc.gov on or before April 5, 2011. Include in the subject line: “FMC Slow Steaming – Response to NOI”.

Responses to this inquiry that seek confidential treatment must be submitted in hard copy by U.S. mail or courier. Confidential filings must be accompanied by a transmittal letter that identifies the filing as “confidential” and describes the nature and extent of the confidential treatment requested, e.g., commercially sensitive data. When submitting documents in response to the NOI that contain confidential information, the confidential copy of the filing must consist of the complete filing and be marked by the filer as “Confidential- Restricted,” with the confidential material clearly marked on each page. When a confidential filing is submitted, an original and one additional copy of the public version of the filing must be submitted. The public version of the filing should exclude confidential materials, and be clearly marked on each affected page, “confidential materials excluded.” Questions regarding filing or treatment of confidential responses to this inquiry should be directed to the Commission’s Secretary, Karen V. Gregory, at the telephone number or e-mail provided above.

Background:

Over the past two years most ocean liner carriers regulated by the Commission have implemented the practice of slow steaming by which the normal service speed of ships is reduced in an effort to reduce bunker fuel costs which account for a high proportion of ship operating costs. Initially, ocean carriers took these measures in response to severely depressed international trade conditions, but slow steaming also is used to mitigate greenhouse gas emissions in response to new environmental initiatives and concerns.¹ By slow steaming, ocean liner carriers address both of these problems by significantly reducing total bunker fuel consumption and the associated emissions.²

In the U.S. ocean liner trades, the practice of slow steaming appears to be most prevalent in the transpacific trade. Data derived from Alphaliner, for example, shows that more than half of the 45 weekly services operating between U.S. west coast ports and Asia are currently slow steaming, while more than three-fourths of the 15 weekly services operating between U.S. east

¹ International shipping reportedly generates about three percent of global carbon emissions. See International Maritime Organization, Marine Environment Protection Committee, *Second IMO GHG Study 2009*, at 7, U.N. Doc. MEPC 59/INF. 10 (Apr. 9, 2009), available at http://www5.imo.org/SharePoint/blastDataHelper.asp/data_id%3D26047/INF-10.pdf.

² According to the United Nations Conference on Trade and Development, a 10 percent reduction in speed will reduce emissions by 19 percent per ton-mile. See United Nations Conference on Trade and Development, *Review of Maritime Transport 2010*, at 66, U.N. Doc. UNCTAD/RMT/2010 (Dec. 20, 2010), available at <http://www.unctad.org/Templates/webflyer.asp?docid=14218&intItemID=2068&lang=1&mode=downloads>. Similarly, one ocean carrier has found that reducing a ship's average operating speed by 20 percent may lower its daily fuel consumption by as much as 40 percent. See Press Release, Maersk, Slow Steaming Here to Stay (Sept. 1, 2010), available at <http://www.maersk.com/AboutMaersk/News/Pages/20100901-145240.aspx>.

coast ports and Asia are doing so.³ In contrast, just 20 percent of the 15 weekly services operating between the United States and North Europe are currently slow steaming.

This time last year, the Transpacific Stabilization Agreement (“TSA”) added authority to its basic agreement that allowed its member lines to discuss and reach agreement on programs to reduce sources of environmental pollution caused by ocean liner operations.⁴ So far, however, no specific TSA program has materialized under this authority, even though slow steaming has become more prevalent during this time in the transpacific trade and in other U.S. trades.

Slow steaming is a complex issue with advantages and disadvantages for both carriers and shippers depending on trade conditions and commodity transported. For example, when carriers are experiencing high bunker costs and low charter rates, slow steaming becomes more attractive to the carrier. When these conditions do not exist, slow steaming does not offer the carrier the same advantages. Thus, in the coming years, potential increases in fuel costs and planned vessel deliveries will weigh in favor of carriers continuing or expanding slow steaming, but a continued recovery in demand and rates will tend to mitigate the trend.

While a good deal of commentary and analysis have appeared in the trade press regarding the benefits that carriers derive from slow steaming services, information about how this practice has affected American exporters and importers is limited. In cases where shippers of low-value commodities receive lower rates as a result of the carrier passing along some of the fuel savings achieved through slow steaming, the additional time for transport may not be an issue for these

³ In addition to the weekly services that call exclusively at either the U.S. west coast or east coast, an additional six pendulum services call at ports on both coasts; two-thirds of these latter services are slow steaming.

⁴ See Article 5(d) of the TSA’s basic agreement available at http://www2.fmc.gov/agreement_lib/011223-045-MC.pdf. (Agreement No. 011223-45)

shippers. On the other hand, shippers of high-value commodities may not find slow steaming advantageous because a potentially lower freight rate may not outweigh the added delay in accessing payments for goods rendered. Likewise, shippers of chilled meat and fresh produce may find slow steaming disadvantageous because the resulting longer transit times could lead to increased spoilage and less shelf-time in grocery stores.

These tradeoffs for U.S. importers and exporters assume that carriers pass at least a portion of the cost savings from slow steaming on to their customers. In the U.S. trades, where the vast majority of liner cargo travels under annual service contracts, it is unclear whether ocean carriers' customers have received those savings – either through adjustments to bunker fuel surcharges or the underlying rates.

Finally, slow steaming has efficiency and environmental benefits that should be factored into both carriers' and shippers' equations. But an accurate analysis of the impact requires reliable methods to measure and quantify those environmental benefits. Better information and more transparency on emissions savings from slow steaming would allow carriers and their customers to make shipping choices that reduce their carbon emissions – and receive full credit for those measures.

The Commission, therefore, has decided to request public comment on the effects of slow steaming practices on ocean liner operations, shippers' supply chains and their underlying businesses, capacity availability, container availability, ocean freight rates, fuel surcharges, and greenhouse gas emissions. Although slow steaming primarily affects the operations of shippers, carriers and rate discussion agreements, the Commission encourages all interested parties, including ports, maritime terminal operators, trade associations, environmental groups, and other

governmental entities to submit comments or to identify any economic and environmental data and studies related to slow steaming. The questions below seek to solicit comments on how slow steaming has affected shippers' and carrier's business operations and the environment.

Commenters may address any or all of the questions and are welcome to submit comments on the effects of slow steaming not addressed by any of these questions.

Questions Directed to Shippers

1. What do you see as the advantages and disadvantages of slow steaming?
2. How has slow steaming of ocean liner services impacted your overall business costs? How significant are those costs? What measures, if any, has your company taken to mitigate any negative cost impact on your business arising from slow steaming?
3. Has your company benefited from the fuel cost savings that slow steaming makes possible by obtaining, for example, lower freight rates or bunker adjustment surcharges? If so, identify those benefits and explain how significant they are.
4. Describe how, and to what extent, the slow steaming of ocean liner services has impacted your company's supply chain, space availability, and container availability.
5. Are different services, i.e., slow steaming vs. normal steaming, available to your company from different ocean carriers over the same trade lane? Alternately, do any individual ocean carriers offer your company different transit times over the same trade lane with varying rates or other service features?
6. In the past year or so, have ocean transit times lengthened between the major port-pairs used in your company's ocean shipping operations on account of the slow steaming of services? If so, how much longer have those transit times become and between which port pairs?
7. Do ocean transit times vary significantly among the different services that link the major port-pairs used in your company's ocean shipping operations? When arranging shipments, what role do differences in transit time play in your carrier or service selection process?
8. If you have service contracts with ocean carriers, were transit times or slow steaming provisions included in those contracts? Was slow steaming consistent with your governing service contract provisions?

9. As a U.S. exporter, has the slow steaming of ocean liner services in the U.S. trades put your company at a competitive disadvantage in overseas markets? If so, please explain.
10. Identify and describe what benefits your company has derived from slow steaming (e.g., more reliable and predictable sailing schedules, a more stable supply chain, etc.).
11. Do you believe slow steaming is sustainable over the long-run? Please explain why or why not.
12. Do ocean carriers provide you with information on fuel, cost, or emissions savings that allow you to calculate and consider the benefits of slow steaming in choosing among transportation options?
13. Discuss whether your company uses slow steaming services to help reduce its carbon footprint on the goods it sells? If so, how substantial are these reductions? How do you measure or quantify these reductions? What type or form of information would better assist you in making choices that reduce your carbon footprint?

Questions Directed to Ocean Liner Carriers

1. What does your company see as the advantages and disadvantages of 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.
3. Do you have plans to increase or decrease slow steaming during 2011 and/or the years that follow?
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?
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?
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?
7. Do you offer shippers, over the same trade lane, different transit times by reason of slow steaming vs. normal steaming?

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?
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?
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)?
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?
12. Is your company adding new vessels to your fleet to accommodate slow steaming?
13. Are new ship designs incorporating hull and propulsion engine innovations to better accommodate slow steaming?
14. How has slow steaming impacted your company's on time performance of sailing schedules?
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?
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?
17. Do you believe slow steaming is sustainable over the long-run? Please explain why or why not.
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.

Questions Directed to Rate Agreements That Establish a Bunker Surcharge Guideline

1. Within the geographic scope of your agreement, what proportion of the ships used by your members 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.

2. Please explain your method used for developing the bunker surcharge guideline. How can the formula be modified to reflect the savings realized from slow steaming?
3. Has your agreement discussed possible ways to pass cost savings along to shippers? If not, do you have plans to, and what is your goal date? If not, why not?
4. What measures has your agreement taken to try to mitigate any adverse impact of slow steaming on the trade?
5. To what extent has the prevalence of slow steaming within the geographic scope of your agreement influenced the type of discussions that take place or the type of information exchanged under the authorities contained in your agreement?

Questions Directed to All Interested Parties

1. What are the major benefits and costs associated with slow steaming?
2. To what extent has the slow steaming of services in the U.S. ocean liner trades reduced greenhouse gas emissions?
3. Discuss the likely long-term prevalence of slow steaming and its potential impacts on the economy and/or the environment.
4. How important is slow steaming in the overall effort to reduce emissions of greenhouse gases and other air pollutants arising from ocean liner operations?
5. What data sources are available to measure the economic and environmental impacts of slow steaming?

Along with comments, respondents should provide their name, their title/position, contact information (e.g., telephone number and/or e-mail address), name and address of company or other entity and type of company or entity (e.g., carrier, exporter, importer, trade association, etc.).

Responses to the NOI will help the Commission ascertain more precisely the impact of slow steaming on U.S. ocean liner commerce, the ocean liner industry, the economy, and the

global environment with a view to determining whether, and if so, what additional analyses or action by the Commission may be necessary.

To promote maximum participation, the NOI questions will be made available via the Federal Register and on the Commission's web-site at www.fmc.gov in a downloadable text or pdf file. They can also be obtained by contacting the Commission's Secretary, Karen V. Gregory, by telephone at (202) 523-5725 or by e-mail at secretary@fmc.gov. Please indicate whether you would prefer a hard copy or an e-mail copy of the NOI questions. Non-confidential comments may be sent to secretary@fmc.gov as an attachment to an e-mail submission. Such attachments should be submitted preferably in Microsoft Word or text-searchable PDF.

The Commission anticipates that most filed NOI comments will be made publicly available. The Commission believes that public availability of NOI comments is to be encouraged because it could improve public awareness of the impact of slow steaming on the environment and various segments of the maritime industry. Nevertheless, some commenting parties may wish to include commercially sensitive information as relevant or necessary in their responses by way of explaining their liner shipping experiences or detailing their responses in practical terms. To help assure that all potential respondents will provide usefully detailed information in their submissions, the Commission will provide confidential treatment to the extent allowed by law for those submissions, or parts of submissions, for which the parties request confidentiality.

By the Commission.

Karen V. Gregory
Secretary