



RECORD FUEL PRICES PLACE STRESS ON OCEAN SHIPPING

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Shipping lines worldwide are struggling as crude oil prices topped an unprecedented US\$119 per barrel this week, in turn pushing marine bunker fuel prices up past \$552 per ton – a \$26 per ton increase since the end of March alone. Bunker prices have risen 87% since the beginning of 2007.

Fuel costs represent as much as 50-60% of total ship operating costs, depending on the type of ship and service.

Ocean carriers are required to recover these costs to maintain levels of service, meaning the price of shipping goods will continue to face upward pressures.

To illustrate the effect of the rising fuel costs, consider the following example of a large modern container vessel used in the Trans-Pacific trade with an actual, maximum container capacity of 7,750 TEUs (twenty foot equivalents) or 3,875 FEUs (forty foot equivalents).¹ With the cost of bunker fuel at \$552 per ton, with fuel consumption at 217 tons per day, a single 28-day round trip voyage for this one vessel would produce a fuel bill of \$3,353,952. This number could be greater for a number of reasons, such as if the voyage were more than 14 days, or if the vessel were smaller and less fuel efficient per container, or if schedule delays required the vessel to speed up to stay on schedule.

Recovery of fuel cost from cargo customers is a challenge when one considers that vessel capacity utilization is not 100%, that trades are not evenly balanced (e.g., U.S. Trans-Pacific exports may utilize only half of a vessel's capacity), that different trades and commodities can handle different levels of rates, and that fuel prices continue to rise. If a cargo shipper pays less than its share of the fuel cost, it can only mean that other shippers must pay more, and/or the carrier fails to recover its operating cost, which is not a sustainable business scenario.

Fuel cost recovery cannot be done on a per-vessel/per-sailing basis. A carrier has strings of vessels operating in scheduled service and must recover its total costs. Thus, the above example scenario, if extended to a single weekly

¹ This size vessel is used only as an example. Fuel efficiency varies by vessel size and other factors.

Trans-Pacific service using five vessels, would create an annual fuel bill to the carrier of \$220 million.²

Approximately 1,500 ocean-going liner vessels, mostly containerships, make more than 26,000 U.S. port calls each year, providing American importers and exporters with efficient transportation services to and from roughly 175 countries.

Today, U.S. commerce is served by more than 125 weekly container services.

The annual fuel cost for the services is tens of billions of dollars and continues to rise substantially.

How carriers seek to obtain recovery of these rapidly rising fuel costs in the current market is a matter for commercial negotiations, but the significance and the magnitude and the consequences of the challenge continue to grow.

Operational Changes

Carriers have been responding to the high cost of fuel by utilizing a range of operational adjustments. Beginning in early 2007, most container lines began restructuring their operations to address fuel price trends. They have:

- redeployed ships among global trade lanes to optimize utilization
- consolidated services through multi-carrier alliances
- consolidated routes to serve more locations with fewer ships
- slowed sailing speeds to conserve fuel where possible within schedule
- improved monitoring of hull and propeller conditions to reduce resistance and improve efficiency
- adopted container transloading, street turns and other strategies to cut inland fuel costs

Considering that these steps have generally already been taken by shipping lines, there are limited additional operational measures that vessels can take to further reduce fuel consumption.

Environmental Measures to Add to Cost Increases

Environmental initiatives to address vessel air emissions will add to these growing costs. The World Shipping Council has fully supported the efforts of the U.S. and other governments to establish new environmental standards for vessel air emissions, and supports the new standards that the International Maritime

² (5 ships) x (217 tons/day) x (\$552/ton) x (365 days per year) = \$218,605,800

Organization has recently agreed to for new engine standards and new fuel standards. However, the cost of low sulfur fuels to be used in Emission Control Areas will be roughly double the cost of bunker fuel, thus creating even more upward operating cost pressures going forward.

While the liner shipping industry fully understand its responsibility to implement and adhere to these new environmental standards, it is essential that the environmental community and regulators also understand that fuel prices are already causing ships to minimize fuel consumption and minimize emissions. Ships cannot afford to waste fuel and do not emit more CO₂ than is necessary for the conduct of commerce. Further taxes or charges on fuel consumption will not cause fewer green house gas emissions; it would only raise costs, and further add to inflation.

It is also important to recognize that ocean shipping is the most energy efficient form on freight transportation. For example, recent estimates show that moving goods by ocean container can be 17 times more fuel efficient than transporting the same goods by air and 10 times more efficient than transporting the goods by road. Environmentally, greenhouse gas emissions can be reduced by shipping goods by sea.

Conclusion

Every sector of the economy is being affected by rising fuel costs.

The transportation industry is being particularly hard hit.

While ocean carriers may provide the most fuel efficient form of transportation, they face an unavoidable imperative of recovering these rising costs if current service levels are to be maintained.

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