



# ASF SERC

ASF Shipping Economics Review Committee

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## NOTE OF UNDERSTANDING

adopted

at the 18th Interim Meeting of Asian Shipowners' Forum (ASF)  
Shipping Economics Review Committee (SERC)

The 18th Interim Meeting of ASF SERC was held in Tokyo on 13 December 2005. The meeting was attended by 22 representatives from the ASF member associations of ASEAN, China, Chinese Taipei, Hong Kong, Japan and Korea. The attendance list is attached.

### 1. Overview of World Economy

The meeting noted that the world macroeconomic structure had gradually and certainly been changing over the years. For example, the relocation of manufacturing plants for consumer goods to Asia brought about lower prices of products and higher personal consumption in the US. The continuing economic growth of China, a production centre for global trade as well as a fast-emerging national economy with an enormous potential for consumerism, boosted world trade. As a result, the overall container cargo volume in the East - West trade will continue to increase and such stability would be likely to remain for a few years ahead.

### 2. Dry Bulk and Tanker Shipping

1) In the dry bulk sector, it was reported that the market, which sharply declined between June and August in 2005, had shown a recovery since September. In 2006, while the vessel capacity would increase as a result of new deliveries, this may be offset by higher cargoes volume.

2) With regard to the tanker sector, it was reported that the current market situation for VLCC remained reasonably strong and that a continuing increase of oil consumption was anticipated due to the continuous economic growth in the US and China.

### **3. Liner Shipping**

1) In connection with the recent large scale Mergers and Acquisitions in the container shipping industry, the delegates confirmed that a series of amalgamations did not necessarily mean an increase in net container capacity. The CEOs of Asian shipping companies were therefore encouraged to deal with the market situation in a calm and reflective manner by analyzing accurate data.

2) For the Trans-Pacific trade, it was noted that the market condition had continued to be strong and that the container cargo movement had been healthy due to a steady increase in exports from Asia, especially China. However, the delegates shared their concerns about increasing cost factors, especially soaring bunker / fuel prices for ocean-going vessels and feeders / intermodals. Serious concerns were also expressed on the issue of rail performance, terminal capacity and stricter environmental regulations. The meeting emphasised that it was absolutely essential for all CEOs of the trans-Pacific carriers to make their utmost efforts to obtain shippers' proper understandings of the present cost situation, in order to make it feasible to continue long-term re-investments corresponding to the future growth in demand for the trade.

3) As for the Intra-Asia trade, it was noted that Asia is in the middle of an economic boom and it is expected to be maintained for at least another few years. It was reported that container cargo movement has constantly increased, mainly led by the strong Chinese trade growth. However, the delegates shared concerns that they were facing serious cost factors also in this trade, especially an upsurge in vessel charter rates and soaring bunker prices. The delegates agreed that it would be desirable for all CEOs to find appropriate measures for the recovery of increasing operational costs in order to fulfil important role in supply chain management of shippers. CEOs of Asian shipping lines were urged to guide their companies including their local representatives in accordance with policies fully considering all economic factors.

4) With regard to the recent issue of Terminal Handling Charges (THCs) at Indonesian ports, it was noted with regret that a disturbing situation had developed in Indonesia where Government direct intervention in the private sector rate setting practices was exercised together with severe penalties for non-observance. The SERC delegates confirmed that, as a matter of principle, pricing of freight rates and surcharges, including THCs, is a commercial issue that should be resolved in the private sector between shippers and carriers by way of free market mechanisms and regular commercial dialogue. The delegates agreed that the issue should now expeditiously and constructively be dealt with by relevant associations in the trade including full consultation with all concerned shipping lines, making good use of commercial wisdom and dialogue.

5) It was reported that follow-up activities to enhance the relationship with shippers in Asia had been continuously sought since the first dialogue meeting between the Asian

Shippers' Council(ASC) and SERC in Penang in April 2005.

It was also reported that a series of "Container Shipping Forum" were held in Tokyo in June and November 2005, attended by representatives from the Japanese Government and shippers / carriers based in Tokyo. The SERC delegates recognised the merits of having opportunities to have a frank exchanges of views among parties concerned at such open forums.

The meeting reaffirmed that, in also connection with the item 4) above, it was increasingly important for carriers and their local representatives / agents to maintain regular contacts with shippers in Asia to facilitate a sincere and constructive relationship based on a dialogue approach nationally and regionally. ASF member shipowners Associations are therefore requested to provide their maximum assistance to appropriate authorised Industry organizations to attain this objective.

#### **4. Antitrust Immunity for liner shipping**

1) The delegates particularly welcomed the recent announcement by the Competition Commission of Singapore (CCS) that they opted to grant a block exemption for the categories of scheduled international cargo liner agreements including conferences, discussion agreements and consortia. The decision in Singapore is consistent with the regulatory norms for neighbouring countries in Asia and most other regions.

2) On the other hand, it was reported that the European Commission has indicated it would make its formal proposal on a repeal of the conference block exemption in the near future. Any such proposal would be subject to a full review process within the EU. It was noted that the European Liner Affairs Association (ELAA) was preparing further proposals on an alternative regime and the delegates confirmed that they fully supported the activity of ELAA for the retention of specified functions of carrier agreements.

3) The delegates confirmed the ASF's long-standing position that the antitrust immunity system is absolutely indispensable for the health of the shipping industry and its ability to meet the investments needed to support the growing demands of international trade. As such, it benefits the whole trading industry. The delegates stressed that carriers should make continuous efforts to seek understanding of related parties such as shippers and governments for important role of carriers' agreements in supporting trade growth.

#### **5. Other Issues**

1) With regard to the piracy issue, while the number of attacks has decreased, the meeting noted that recent armed robbery attacks included an alarming increase in hostage-taking and kidnapping for ransom. Recognising that the matter was a primary concern of the Safe Navigation and Environment Committee of the ASF, it was confirmed that further enhancement of measures against the piracy attacks is required

in order to prevent not only the violent incidents themselves, but also to deal with the potential threat of maritime terrorism.

2) The delegates also exchanged their views on the other recent topics concerning the shipping industry such as the WTO negotiations on maritime transport and the US maritime legislation including transportation security issues.

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The ASF Shipping Economics Review Committee (SERC) is a forum for CEOs of shipping lines of Asia to review macroeconomic trade information and developments, as they relate to shipping. The objective of the SERC is to improve the quality of executive decision-making by the review of available economic data and the sharing of perspectives on major trade issues.

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