



ASF SERC

ASF Shipping Economics Review Committee

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NOTE OF UNDERSTANDING

adopted

at the 19th Interim Meeting of Asian Shipowners' Forum (ASF)
Shipping Economics Review Committee (SERC)

The 19th Interim Meeting of ASF SERC was held in Okinawa on 28 February 2007. The meeting was attended by 19 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 delegates exchanged views on global economic trends, especially in the US and Asia. The meeting noted that the US economy, which recorded 3.5% growth in the final quarter of 2006, appeared to be continuing its expansion at a moderate but sustainable pace in 2007 based on stable personal consumption and capital investment despite a slow down in the housing market. As regards the East Asian situation, it was expected that the robust economic growth would continue mainly due to the powerful Chinese economy. In this connection, the meeting concurred that Vietnam's WTO entry would have an additional positive effect on the Asian economy.

2. Dry Bulk and Tanker Shipping

1) In the dry bulk sector, it was reported that the market was strong in general last year due to the steady growth in the volume of trade, especially iron ore to China. It was anticipated that the market in 2007 would continue to expand steadily led by prosperous global economic growth and eager demand for dry bulk cargo, particularly in China. The meeting recognised that there could be an improved supply and demand balance, on the basis that the market survived the peak in delivery of newbuildings in 2006 and that the delivery schedule for new dry bulk tonnage is expected to show declining trends in 2007 and 2008.

2) With regard to the tanker sector, it was reported that the market had been unusually depressed since the autumn of 2006, when oil prices slipped back. However, the

delegates shared the view that the market would likely improve because of a growing transportation demand in China and other emerging regions. In this regard, it was noted that the future tanker market would be significantly influenced by how smoothly the phase-out of single hull tankers would be carried out by 2010 and, subject to favourable geopolitical situations, how much new tonnage would enter the market in connection with the phase-out.

3. Liner Shipping

1) With regard to the US trans-Pacific trades, the meeting shared its regret that, despite double-digit growth of the trade's cargo volume, most liner shipping companies suffered from poor financial results for 2006 due to lower freight rates and increasing cost factors such as soaring bunker prices, high inland transport costs and port charges in the US. Concerning the market forecast for the trade in 2007, it was reported that the east-bound cargo movements would expand by some 9 to 12% in light of positive economic trends in the US, while the actual available vessel capacity would increase by an equal or a lesser amount. Hence a tighter supply/demand situation is expected. On the other hand, deep concern was expressed about the continuing high cost situation, especially inland transport costs in the US. In light of the situation, the meeting reached the common understanding that it was essential in the trans-Pacific trades for all the CEOs to continue their utmost efforts to seek to improve shippers' understanding of the necessity of freight rate restorations and recovering increased operating costs in order to maintain high quality services.

2) As for the Intra-Asia trade, it was noted that the strong trade volume would be maintained, and that the powerful Chinese economy would continue to be the main driving force for favourable container movement in Asia. In this connection, special attention was given to additional positive effects for the trade brought about by the rapid growth of Vietnam's container market. At the same time, the delegates shared their concerns on a possible oversupply as a result of lower charter rates and cascading tonnage effects. In addition, it was noted that continuing high cost situation, especially bunker prices, had negative aspects for carriers. Considering this situation, the meeting shared the view that the current levels of freight rates were not enough to recover deficits caused by cost increases in recent years, and that further rate restoration efforts within authorised trade agreements were critically necessary in order to maintain adequate carrier services and investments in trade infrastructure needed to meet growing demand.

3) To secure better shippers' understanding on market conditions of the trades, the delegates reaffirmed that it is crucial for them to facilitate a good relationship with shippers. As an example of shipping lines' efforts on the issue, it was reported that a series of "Container Shipping Forum" was held in Tokyo in June and November 2006, attended by the Japanese Government officials and shippers / carriers based in Tokyo. The meeting agreed to continue their utmost efforts to enhance a constructive shippers-and-carriers relationship in Asia, based on a dialogue approach.

4) Moreover, for both the US trans-Pacific trade and Intra-Asia trade, CEOs were encouraged to lead their companies, particularly sales personnel at all regions of the trades, in accordance with cost-based and economically sustainable pricing policies. Additionally, it was pointed out that the shipping industry should take a cautious approach to third party market forecasts in order to prevent unnecessary confusion due to frequently diverging figures between actual situations and forecasts.

4. Antitrust Immunity for liner shipping

It was reported that there had been recent developments in competition law issues in Australia, China, Hong Kong, Japan, Singapore and the EU. The members noted positive developments in most countries, but noted with concern the EU's decision to abolish its block exemption for liner conferences. The delegates reaffirmed the ASF's long-standing position that the antitrust immunity system is indispensable for the health of the shipping industry and its ability to encourage the investments needed to support the growing demands of international trade. Eliminating this longstanding stabilising mechanism risks inadequate investment and services at a time of unprecedented growth in trade. As such, antitrust immunity benefits the whole trading industry. It was agreed that carriers should make continuous efforts to seek the understanding of related parties such as shippers and governments for the important role of carriers' agreements in supporting trades.

5. Other Issues

1) It was reported that the Panama Canal Authority (PCA) recently published their proposals for toll increases. Average annual increases of around 10% from 2007 to 2009 for all kinds of ships were proposed as a means of financing the third set of locks. The amount of the proposals is unacceptably large and, in particular, costs for container ships, tankers and PCCs will be significantly affected. The delegates expressed their grave concern that the PCA proposals clearly have major implications for shipping companies' business planning. At the same time, having noted the recent report that the Suez Canal Authority will unveil sizeable discounts of their transit fee in March 2007, the feasibility of alternative routes to the Panama Canal will be seriously examined. Furthermore, it was agreed that the proposed 3 years of increases of the Panama Canal tolls should be spread over a longer period. As a result of discussion, the SERC decided to request the current ASF Chairman to make a submission to the PCA on behalf of the ASF in order to convey ASF's strong objection to the proposals.

2) The recent developments of WTO were reported. The delegates welcomed the resumption of Doha negotiations and they were reminded to continue to emphasise the importance of the inclusion of maritime transport services in the General Agreement on Trade in Services (GATS) in order to codify existing free trade practices in the shipping industry. In the meantime, the delegates warmly welcomed Vietnam's WTO entry that would have a positive implication for global trade.

3) It was noted that the increasing Free Trade Agreements (FTA) and dynamic bi-lateral economic relationships among Asian countries had made a positive impact on the Asian economy and cargo movement. The delegates confirmed their expectations for further promotion of these developments.

4) The recent developments on a draft international convention on the carriage of goods by sea were reported. The document has been deliberated by the United Nations Commission on International Trade Law (UNCITRAL) to give greater uniformity to govern carrier responsibilities and liability for cargo loss or damage, mainly in container trades. Of note, the proposed convention would cover all water and intermodal transport. The delegates were encouraged to pay careful attention to the development of the new convention.

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The ASF Shipping Economics Review Committee (SERC) is a forum for CEOs of Asian shipping lines 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.
