



ASF SERC

ASF Shipping Economics Review Committee

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NOTE OF UNDERSTANDING

adopted

at the 20th Interim Meeting of the Asian Shipowners' Forum (ASF)
Shipping Economics Review Committee (SERC)

The 20th Interim Meeting of ASF SERC was held in Taipei on 21 November 2007. The meeting was attended by 16 representatives from the ASF member associations of ASEAN, China, Chinese Taipei, Hong Kong, Japan and Korea. The attendance list is attached.

1. World Economy

The meeting noted that the world economy was in its fifth year of robust growth, as mentioned in the statement of G-7 finance ministers and central bank governors made in October, but, in the last few weeks, uncertainty, triggered by the US sub-prime mortgage upheaval, seemed to have been gradually spreading to global financial systems, although it was premature to determine what implications this situation would have for the world trade. The delegates were urged to carefully monitor the world economy while avoiding reactions not based on realistic view of markets.

2. Dry Bulk and Tanker Shipping

1) It was reported that the dry bulk market had reached an unprecedentedly high level, due to factors such as the massive increase in cargo volume, especially China's sharply increased imports of iron ore, the tightened supply and demand relationship resulting from prolonged demurrage in Australia and other places, and the market's bullish speculation. Given also that the limited world shipbuilding capacity would not seemingly increase tonnage supply for the time being, the delegates shared the view that economic factors that could adversely affect the market in the near future did not seem likely to develop.

2) With regard to the tanker sector, the meeting noted that the market had remained at a weak level, which could partly be attributable to the reduction of US oil imports resulting from an increase in the country's domestic production of crude oil, the

historical level of oil prices, and the slow phase out of single hull tankers, despite the fact that the Chinese oil import volume in January to August 2007 was up around 15% compared to the same period in the previous year. However, the delegates also noted that the market could react to elements such as the decline of US oil stock, a higher demand in winter, a growing requirement for long-haul trade, for example, from West Africa to China, and the expected withdrawal from the market of a certain number of single hull VLCCs intended to be converted to VLOCs (Very Large Ore Carriers) or FPSOs (Floating Production, Storage and Offloading systems).

3. Liner Shipping

1) With regard to the US trans-Pacific trade, it was reported that the overall cargo movement had made around 7% growth in the first half of 2007 compared to the same period a year earlier, due to the relatively healthy trade of general consumer and construction-related products, although movements of housing-related merchandise declined as a result of the depressed housing industry in the US. Concerning the supply / demand situation, the delegates shared the view that it would likely continue to be balanced in 2008, with the space utilization ratio at a high level of above 90%.

2) As for the Intra-Asia trade, it was noted that the market had sustained robust growth since the cargo movement in East-Asia, especially to / from China and Japan had remained at a high level. It was also recognized that the market in West-Asia, such as India, Pakistan and the Middle East, had improved, with cargo volume increasing at a record-setting high level of about 20%.

3) However, the delegates expressed their grave concern that the current rate levels in the liner market in the above trades remained insufficient to cover dramatic cost increase, particularly fuel costs, to recoup past investments, or to facilitate the required investment for the future, even though a certain amount of rate restoration had been achieved. It was also reaffirmed that vigilance was crucial against increasing cost factors, such as rocketing rises in bunker prices and inland rail charges, and also the US sub-prime loan problem which had begun to cast a shadow. Problems relating to infrastructure and congestion were also reported such as shortage of port capacity in the US and some Asian countries, especially Vietnam and India, as well as the US container handling productivity which required rapid improvement. In these respects, the meeting stressed that the CEOs of Asian container lines were required to address these issues with strong leadership, profound commercial judgement and in-depth economic analysis in order to continue to maintain comprehensive and efficient service level required by their customers.

4. Antitrust Immunity for liner shipping

It was noted that the antitrust immunity systems for ocean carrier agreements had been under review in various countries and regions such as China, India, Japan, Singapore and the EU. In particular, China passed its anti-monopoly law in August, while in September, India adopted the bill to provide statutory powers to the

Competition Committee of India (CCI) to enforce their Competition Act of 2002. The SERC meeting, reaffirming its long-established perspective that the anti-trust immunity system was indispensable for the efficient management of the shipping industry to meet future expansion of global trade, highlighted that this system benefited the economies of all trading countries. The delegates agreed that it was of great importance for the ASF to share a common perception on the present status of developments on this issue in the various countries and regions. It was agreed that SERC delegates should take necessary action towards helping various concerned parties in the countries to properly understand the necessity of the immunity system.

5. Other Issues

1) It was reported that the US had recently adopted legislation requiring 100% of all containers bound for the country to be scanned with radiation detection equipment and non-intrusive imaging equipment at foreign ports of loading no later than July 2012. The delegates expressed their concern that this legislation would pose a number of implementing problems, such as the practicability of every container being scanned before loading and the availability of such equipment. It was emphasised that the worst-case scenario had to be avoided where this kind of hypothetical idea could cause enormous disruption to the management of the world's supply chain.

2) The delegates also exchanged their views on other recent topics such as piracy, armed robbery and the WTO negotiations on maritime transport.

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The ASF Shipping Economics Review Committee (SERC) is a forum for senior executives 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.
