



# ASF SERC

ASF Shipping Economics Review Committee

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## NOTE OF UNDERSTANDING

adopted

at the 21st Interim Meeting of the Asian Shipowners' Forum (ASF)  
Shipping Economics Review Committee (SERC)

The 21st Interim Meeting of the ASF SERC was held in Tokyo on 10 December 2008. 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. World Economy

Noting that the financial crisis triggered by the US sub-prime loan problem had spread globally much more rapidly and damagingly, the meeting welcomed determinations expressed by the leaders of the G-20 and the APEC last month to continue to take urgent and extraordinary measures for world economy to recover. In the meantime, bearing in mind that the crisis could be a good opportunity to make a comprehensive review of their business models, the delegates are encouraged to calmly consider the underlying implication of the crisis.

### 2. Dry Bulk and Tanker Shipping

1) It was reported that the dry bulk market remained strong until the end of June 2008 but depressed afterwards due to factors such as slowdown in China's import of iron ore, eased congestion at loading ports and the outflow of speculative funds from the market. In contrast to the difficult economic environment, concerns about the possible concentration of large volume of new deliveries in 2010, appeared to be mitigated to a certain extent as the credit crunch made it difficult for some shipowners and shipyards to raise funds for new buildings. Based on actions taken to date, it is possible that the number of cancellation of new building orders could reach as many as 1,000 vessels. The market slump will likely also encourage scrapping of obsolete vessels. Anticipating that the current financial crisis might reach its bottom during the second

half of 2009, it was noted that the dry bulk market may pick up from 2010 onward.

2) Regarding the tanker sector, it was reported that the VLCC market, which was, by and large, at a good level until the end of September 2008, fell subsequently mainly due to the downward trend of oil imports of China and the US. The forecast for 2009 is also flat. On the other hand, it was recognised that the current market seems to show some strengthening for the demand period in the winter. In this connection, the future tanker market may be positively influenced by downward pressure for new building activity due to the credit crunch, dropping steel prices, the phase out of single hull tankers, additional demands for non-conventional energy resources such as biofuels and the shift of oil refineries from consumer countries to oil producing countries especially in the Middle East as well as the movement from western oil producing countries to the east.

### **3. Liner Shipping**

1) With regard to the US Trans Pacific trade, it was reported that cargo movements to North America in the first eight months of 2008 decreased by 7% to 9.5 million TEU on a year-on-year basis as a result of the sluggish housing market and consumer spending in the US. The forecasts for 2009 are not so positive but some views were expressed that signs of a rebound might be seen in latter part of 2009 in the hope that a large scale of economic stimulus package would be implemented by the new Obama administration. On the other hand, the US westbound cargo volume to Asia increased by 18% to 4.3 million TEU in the same period, as a consequence of the increased cargoes such as waste paper and scrap metal and the shift of traditional bulk commodities, e.g. grains, to container ships due to the booming dry bulk market. However, cargo growth slowed down as a result of the economic turmoil. Under these circumstances of significant unused vessel capacity and uncertainty for the future, many lines have started to rationalise their operations by various means, for example, slow-steaming, charter-off hire, vessel lay-up and bringing forward the winter programme for ships in the Trans Pacific trade.

2) As for the Intra-Asia trade, it was reported that certain degree of steady trade growth is still observed for 2008, but the growth rate will be much lower than in 2007 due to an unprecedentedly fast contraction of the global economy. Although the trade appears to be relatively resilient compared with the Trans Pacific trades, it is vulnerable to cascading effect of container ships. It would therefore seem that a cautious approach on the supply-demand situation in 2009 and onward is appropriate.

3) In addition to the current economic slowdown, carriers are continuously burdened with increasing cost factors in both trades. Although the bunker prices have gone down to the extent which regular services can be barely maintained by carriers, rail, trucking and other terminal related costs, particularly inland fuel costs, remains high. In this respect, the delegates agreed that it was important for CEOs of Asian shipping

companies to carefully examine such cost factors and to make every effort to keep customers well-informed of the actual difficult situation faced by carriers. It was also agreed that shocking effects of the financial TSUNAMI have clearly extended to the international shipping industry. Although it is extremely difficult to precisely predict how the future shipping markets will absorb this recession, the CEOs are urged to deal with the situation in the Trans Pacific and Intra-Asia trades, in a rational and patient manner with confidence to make business decisions based on long-term overall strategies for the benefit of their companies in order to attain sustainable operation of the liner business to support the need of global trade.

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

It was reported that there had been recent developments in competition law issues in China, Hong Kong, India, and the EU. The delegates reaffirmed the ASF's long-standing position that the antitrust immunity system is indispensable for the health of the shipping industry. It was also reported that the European Commission (EC) published the Draft Regulations on Consortia in October 2008 and some ASF member associations submitted their comments to the EC, arguing for the importance of a broad and flexible block exemption regulations for consortia in order to support the sustainable world trade and to flexibly meet changing market and customers' requirements. Recognising the importance to retain legal certainty to assure the current consortia system under the EU Competition regulation framework for a longer term, it was agreed that SERC delegates should continue to work with concerned parties to develop their better understanding of the benefit and role of the consortia system.

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

1) Regarding piracy, the meeting noted that the UN Security Council has recently decided to extend the validity of its resolution of June 2008 for another twelve months, which stipulated that States and regional organisations may enter Somalia's territorial waters and use all necessary means, such as deploying naval vessels and military aircraft, to fight against piracy and armed robbery in accordance with relevant international law. The meeting also noted the appeal of 15 September 2008 by the ASF SNEC which requested the IMO and all maritime nations to exercise political will to combat piracy. In view of the continual extreme dangers threatening the world trade and the limited self-defence means by merchant ships, the committee expressed their strong requests to the international community that further decisive countermeasures against piracy should be immediately implemented by as many governments as possible.

2) It was noted that China's 24 hour advance cargo manifest filing rules were announced to be implemented from 1 January 2009. However, any complementary instructions to implement the rules have not yet been published. With the short time

until the effective date, the authorities concerned were urged to publish precise information in order to ensure smooth movement of cargoes to/from China.

3) The delegates also exchanged their views on other recent topics such as the WTO negotiations and Container Shipping Forum held in Japan in November 2008.

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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.

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