

The 18th Asian Shipowners' Forum 2009

Chairman Mr. Arnold Wang

Opening Address

Good morning, Ladies and Gentlemen. Welcome to Tainan for the 18th Asian Shipowners' Forum in 2009. It's great to see you here. This year, we are very happy to have a new member of this forum. Let's welcome our new friends from Indian National Shipowners' Association.

By the way, we are also pleased to see the new generation of shipowners from Singapore Shipping Association. It is their first time to join this forum. I would like to take this opportunity to welcome their participation, and hope they will benefit from this annual event.

As we know, the future of Asian shipping community depends very much on our next generation. This forum provides a good opportunity for them to start building relationships with their peers and to know more about this industry.

Therefore, I sincerely hope more shipowners will follow the example of SSA and bring their second generation to the future meetings.

Now back to our forum today. To begin with, I would like to point out some of the main problems facing the container shipping industry. And later, each of our committees will have more profound discussions on a broader scale. We can expect thorough analyses and constructive suggestions from their reports.

The present deteriorating market conditions are affecting the entire shipping industry and the container industry is among the worse affected with no prospect of an imminent improvement. Lines have recognized that driving rates down and trying to be the "last man standing" might not be such a good idea after all and are trying to force rates up again on 1st of April 2009.

Results for 2008 clearly show just how bleak the picture is, with all carriers suffering huge losses or dipping in profitability. Liners are

sharing space on major east/west trades and removing excess tonnage, resulting in big fleets of idle ships at anchor. We expect the number to be increased further.

Problems of the Demand Side

Unlike the governments, we can not conduct economic stimulus plans to strengthen consumer demand. So, about the demand side of the market, it seems that there is not much that we can do. Some people might even think the solutions are beyond the scope of this forum.

But that is not true. As we know, market's problems are often magnified by uncertainty. If we can have better understanding of these issues, I believe we will have more confidence on the future and hopefully rebuild a more stable market.

For the full recovery of economy, there is a long way to go. But during the time before its arrival, confidence can make a big difference in our strategies. When we have confidence, we can focus our efforts on future planning.

These are clear signs that the economy is improving. Some people are more optimistic and claim that we are in the early stages of a recovery. No matter what, we can be sure that we are one step closer to the end of this recession.

There are 2 points to support this argument.

1. **Signs of Economic Recovery**

Job Market

This month the U.S. Labor Department announced the loss of 539,000 jobs in April. However, the pace of layoff is slower than expected. The unemployment figure is better than the 600,000 jobs forecast by analysts and is far below the 699,000 jobs cut in March.

Consumer Spending

In the United States, consumer spending accounts for about 70% of total economic activities. The statistics increase by 2.2% in the first quarter of this year. It is very encouraging after the negative growth of

-3.9% in the third quarter and -4.3% in the fourth quarter of last year.

Stimulus Plans

The American Recovery and Reinvestment Act (ARRA) will pump an additional US\$787 billion into the US economy over the next 10 years.

It comprises a combination of initiatives, including US\$286 billion in tax cuts and US\$501 billion in increased spending on key areas such as education, healthcare and infrastructure. Its primary purpose is to create jobs and boost flagging domestic demand.

In March 2009, US unemployment hit 8.5%. About 5 million jobs have gone since the recession began in December 2007 and almost two-thirds of them in the past five months. The economy shrank by 6.3% in Q4 2008 and IHS Global Insight, an economic analysis company, is forecasting a contraction of 7% to 8% in Q1 2009.

Container volumes through US ports have been in free-fall. So for many, the stimulus has come none-too-soon.

However, the U.S. government will continue to implement more stimulus plans to boost the economy. Together with the improving job market, these initiatives will increase the purchasing power and boost the consumer confidence.

2. Free Trade – Momentum of Growth

Due to the impact of this economic crisis, there are concerns of protectionism. It is easy to understand that some governments may close doors to imported goods in favor of domestic producers. But this course of action must not be pursued.

At time of recession, consumers are suffering from declining incomes. What they really need is the ability to purchase more products for less money. Only free trade can provide such a choice. If the governments turn to the policies of protectionism and economic isolation, they will further reduce consumers' purchasing power.

That is why globalization trend can not be reversed. And that is why we believe forward-looking policy makers will continue to promote

free trade and reject protectionism. Because free trade will be the foundation of economic recovery and it is the right thing to do.

Indeed free trade and globalization have their own problems. But as the Chinese saying goes, people should not stop eating for fear of choking. We should focus on the problems for preventive measures rather than deny the mechanism of economic recovery.

Problems of the Supply Side

Container shipping market is under heavy pressure of over-tonnage. According to Alphaliner, the global fleet of container vessels is forecast to increase by an average of 13% for the next 3 years. Combined with the downturn of world economy, we can expect a widening gap of cargo demand and capacity supply. However, the points below shows the situation is improving.

Idle Fleet

According to Alphaliner, the idle tonnage of containerships surged to the peak of 1.42 million TEU in March 2009. Since then, cargo volumes have picked up and freight rates have increased. However, the improving market outlook did not attract more laid-up vessels back into service.

This month, the idle fleet of containerships stands at 1.31 million TEU, about 10.3% of global fleet. The stable fleet of idle ships demonstrates carriers' determination to tackle the problem of over-tonnage.

Postponed Newbuildings

Given the over-supply of capacity, many carriers are negotiating with shipyards to postpone the delivery schedules or even cancel the orders of newbuildings. Alphaliner's monthly fleet forecast can provide an overview of the development.

Based on the report in October 2008, the global cellular fleet was expected to increase by 15.3% in 2009, 14.2% in 2010 and 10.8% in 2011. But this month, the latest report has revised the forecasts down

to 13% in 2009, 13.2% in 2010 and 10.4% in 2011.

Scrapping of Ageing Ships

From January to April of this year, 52 containerships have been sold for demolition, removing 91,000 TEU from the fleet of containerships. As the number of idle ships remains high, Alphaliner expects the scrapped tonnage will exceed 200,000 TEU in 2009.

Scrapping of old vessels is an effective alternative to cut redundant capacity. Besides, younger fleets can improve safety and operating efficiency, lower maintenance and insurance costs, and reduce fuel consumption and the impact on environment.

Conclusion

There are good signs of recovery and bad news of fluctuations. But as long as we focus on the bright side, we can have more confidence on the future and prevent overkill of the market.

From its beginning in 1950s, container shipping has evolved for more than 50 years. And now we reach a turning point of the industry's development. With confidence and a forward-looking view, I believe we will eventually conquer these challenges and restore the stability of container shipping industry.

When written in Chinese, the word "Crisis" is composed of two characters – one represents "Danger" and the other represents "Opportunity". We hope to transform dangers into opportunities.

Thank you.