



ASF SERC

ASF Shipping Economics Review Committee

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NOTE OF UNDERSTANDING

adopted

at the 26th Interim Meeting of the Asian Shipowners' Forum (ASF)
Shipping Economics Review Committee (SERC)

The 26th Interim Meeting of the ASF SERC was held in Bangkok, Thailand on 8 October 2013. The meeting was attended by delegates from the ASF member associations of ASEAN, China, Chinese Taipei, Hong Kong, Japan and Korea. The attendance list is attached. The SERC members were firmly committed to ensure full compliance with all applicable competition laws throughout the entire programme under the careful observation of their counsel, as in previous meetings. The delegates exchanged the following information and opinions.

1. World Economy

The U.S. economy is on a steady track to recovery due to the continuation of quantitative easing and so called shale gas revolution. However, there is the delicate issue of what will happen after tapering. In addition to having a direct impact on the U.S. economy, tapering would trigger a withdrawal of money from emerging countries and a subsequent slowdown in their economies, which will affect the U.S. economy negatively. In Europe, in addition to the steady showing by the U.K. and Germany, there is an emerging sense that the economy is bottoming out in several southern European countries. Nevertheless, it will take some time before full-fledged consumer activity is restored in Europe as a whole. Meanwhile, turning our attention to Asia, the economies in the Asian countries have remained stable compared to the U.S., and Europe. Although China is no longer achieving the double-digit growth it enjoyed previously, it continues to maintain a high level of growth in the range of 7–8 percent. India and the ASEAN countries are also performing at 5–6 percent. In summary, while the global economy still faces uncertain factors, there is a steady trend toward recovery. The situation can be described as a continuing process of trial and error in pursuit of stable growth.

2. Dry Bulk and Tanker Shipping

1) Dry Bulk

The meeting recognised that the dry bulk market, especially the Cape-size market, has recently showed some signs of recovery, mainly due to the increase of steel production volume, particularly in China, and some improvement of the

supply-demand balance because of the decreasing number of new ships being delivered and the demolition of old tonnage. It was expected that the demand for dry bulk would likely continue to grow due to persistent demands for urbanisation in the emerging countries, as typified by the new Indian infrastructure project worth 1.83tn rupees, which was approved this August. At the same time, the delegates expressed their expectation of a further improvement of the supply-demand balance as a result of individual carrier decisions to scrap tonnage in the short term. On the other hand, the meeting also recognised that new building order has tended to increase recently including speculative orders spurred by the lower prices by shipbuilders.

2) Tanker

It was reported that global oil demand would continue to increase slightly until 2017 and oil demand in emerging countries, especially China and India, would be continuously strong. On the other hand, the meeting noted that, although some new ships would be expected to be delivered in 2014, new deliveries would decrease from 2015. Considering these situations, the delegates shared the view that the crude oil tanker market in 2013 was expected to bottom out and that some signs of recovery would emerge in 2014. However, the meeting shared some concerns, especially on the uncertainty of future crude oil demand and unexpected new orders in the next few years.

With regard to the LNG tanker sector, it was expected that an excess of supply would expand from 2014 to 2016 due to speculative orders made in 2012, and afterwards, demand would increase from 2016 or 2017 but the supply-demand balance would be uncertain because of possible new tonnage.

3. Liner Shipping

It was noted that while economic conditions in the US were improving, the pace of economic recovery remained slow and consumer demand continued to be muted. On the other hand, the meeting concurred that China was expected to continue with consistent growth, although its growth figures have waned since their height a few years ago, and South East Asian countries were also expected to be another engine for global economic growth as the next global factory.

With regard to the US trans-Pacific trade, the meeting recognised that although demand was showing a gradual increase, it was not enough to offset a continuous supply/demand imbalance due to the further deployment of larger vessels in this trade. In this regard, it was reported that the average container vessel sizes had increased by around 32% over the last five years from 2,600 teu in 2008 to 3,430 teu in 2013, and that the supply tonnage would increase by 6% in 2013 and then would reach its peak in 2014, marking a 7.1% increase. In addition, the meeting delegates shared their concerns on continuous cost increases such as the inland intermodal costs and the terminal costs in the US.

In light of the situation, the delegates reaffirmed the high importance to carriers of independently undertaking various efforts, with adherence to all applicable competition laws, such as more efficient services and the reduction of vessel operating costs/fuel

costs, and once again individually making rational economic decisions in order to ensure a sustainable business environment.

Turning to the intra-Asia trade, it was noted that the market continued to grow steadily due to the continuous development of major economies in Asia. However, overall freight rates in the market continue to suffer from the pressure of a cascading larger capacity and employment of previously idle capacity from third party owners.

Under these circumstances, the delegates discussed the importance of the players in the market independently studying possible measures for surviving the situation, such as some possible cost-cutting measures adopted in deep-sea trades, including, where legally permissible, the sharing of vessel space and assets, and slow steaming.

4. Antitrust Immunity

Recent developments in a number of jurisdictions were reported on. The meeting reconfirmed the ASF's long-standing policy that the anti-trust immunity system for all types of cooperative liner shipping agreements was absolutely indispensable for the shipping industry and the whole trading industry.

5. Other Issues

1) Panama Canal Issue

The delegates shared much concern over possible further unilateral toll increases through the use of new toll structures applied from mid-2015. It was therefore agreed that the ASF, in collaboration with international shipping organisations such as ICS, and respective ASF member associations, through their own governments, urge the Panama Canal Authority to listen sincerely to users' voices and establish a new user-friendly toll structure and rates.

2) China VAT Issue

The delegates expressed their grave concern over the additional heavy burden on the international supply chain imposed by the new China VAT regime, and it was agreed to continue urging the Chinese government to improve the current regime and refrain from imposing VAT on international ocean freight in line with international tax practice.

3) Philippines Common Carrier Tax (CCT)

The meeting noted some shipping bodies' efforts in seeking the abolishment of the Philippines CCT, which imposes a 3% tax (CCT) on only foreign carriers' freight revenue generated from outbound services from the Philippines. It was agreed that SERC members should request respective shipowners' associations to urge their own governments to lobby the Philippine government towards the abolishment of the CCT.

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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 and trade. The objective of the SERC is to improve the quality of executive decision-making by the review of available macroeconomic data and the sharing of perspectives on major trade and shipping policy issues.
