

Explanation concerning the Cross-Strait Sea Transport Agreement

— The Results of the Second Chiang-Chen Meeting (Sea Transport)

Mainland Affairs Council
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I. The urgency and necessity of direct sea transport

1. Economic urgency

(1) Cross-strait economic and trade activity is intensifying by the day, generating enormous demand for direct sea carriage of passengers and goods:

— In 2007, cross-strait trade amounted to US\$130.2 billion, accounting for 27.9% of Taiwan's total foreign trade. Taiwan's exports to mainland China amounted to US\$100.4 billion, constituting 40.7% of Taiwan's total exports.

— In 2007, cross-strait import and export sea cargo volume reached 1.37 million TEUs of container cargo and 16.62 million tonnes of bulk cargo. However, apart from the small proportion of transshipment cargo that was shipped directly via Taiwan's offshore shipping centers, most of the cargo had to be carried via a third territory.

(2) Currently, more than one third of Asian cargo is sourced from mainland China, but vessels sailing from mainland Chinese ports with cross-strait cargo must sail to a third territory before they can enter Taiwan's ports. This wastes time and energy, and not only greatly increases the time and cost of shipping goods, with impact on the competitiveness of shipping companies, but also makes foreign shipping lines less willing to maintain operation in

Taiwan's ports and may even prompt them to pull out of Taiwan altogether. This has caused Taiwan's ports to gradually slip down the world rankings of international container ports (Kaohsiung Port's container throughput fell from 4th highest in the world in 2003 to 7th highest in 2007), affecting the important role Taiwan can play in Asian sea transport.

- (3) Since domestic vessels have until now been unable to participate in the cross-strait carriage of passengers and cargo, our shipping companies have flocked to change from domestic to foreign registration. This has caused a sharp fall in the total tonnage of domestic vessels in recent years, with the proportion of flag-of-convenience ships rising to 84%, adversely affecting the overall development of Taiwan's shipping industry.

2. Solidly based on the will of the people

- (1) Various public opinion polls over the years have consistently found that more than 70% of the public support direct cross-strait transport, while support for it among the business community surpasses 90%. Our society has long since formed a consensus in favor of direct cross-strait transport.
- (2) The former DPP administration presented its policy on direct cross-strait transport as long ago as August 2003. In the 2004 and 2008 presidential elections, the DPP candidates advocated direct transport as a major plank of their policy platforms. It is clear to see that the implementation of direct transport is a longstanding government policy goal and not the sole province of the Ma administration.

3. The step-by-step implementation of direct shipping

- (1) Taiwan's first "offshore shipping center" (designated by the mainland as a "test point for direct shipping") went into operation in April 1997, allowing cross-strait flag-of-convenience vessels to sail directly between Kaohsiung Port and Fuzhou and Xiamen

Ports in the mainland, but limited to the carriage of transshipment cargo. In October 2001, the functions of the offshore shipping center were expanded to allow the processing of transshipment goods to be extended to all tax-free areas and to allow the conduct of sea-air intermodal transshipment.

(2) In May 2004, the government announced the “Measures for Sea Freight Facilitation,” which added offshore shipping centers (OTCs) in Taichung and Keelung to the original OTC in Kaohsiung, and further expanded the scope and functions of the OTCs. Under these new measures, vessels could sail directly between the OTCs and any open mainland port, but could only carry “international goods” from the mainland or Taiwan for consignment to a third territory, or for consignment from a third territory to the mainland or Taiwan.

(3) Although direct cross-strait shipping has already been partially implemented, it is still subject to many restrictions, with cross-strait imports and exports still required to be shipped via a third territory, and domestic vessels unable to participate in shipment. Hence, it is urgently necessary to open up cross-strait sea transport, to remove all kinds of unreasonable restrictions that are disadvantageous to shipping and economic development.

II. Major Breakthroughs of the Cross-Strait Sea Transport Agreement

The signing of the Cross-Strait Sea Transport Agreement between the SEF and ARATS on November 4 has achieved the following major breakthroughs in cross-strait sea transport:

1. Cross-strait vessels as the main force in direct transport

(1) Vessels registered in the ownership of shipping companies on the two sides of the Taiwan Strait can engage in direct cross-strait

transport of passengers and cargo.

- (2) Vessels owned by companies on either side of the Taiwan Strait and registered in Hong Kong can similarly engage in direct cross-strait transport of passengers and cargo.
- (3) Flag-of-convenience vessels owned by shipping companies on either side of the Taiwan Strait and that are currently already engaging in offshore shipping center transport, cross-strait third-territory container line transport, and sand and gravel transport, also can participate in direct cross-strait transport of passengers and cargo.

2. Broad opening of ports

- (1) Taiwan will open 11 ports, namely: the six ports of Keelung (including Taipei), Kaohsiung (including Anping), Taichung, Hualien, Mailiao and Budai (initially to be carried out on a special case basis) and the five “Mini-Three Links” ports of Liaoluo and Shueitou on Kinmen, Fuao and Baisha on Matsu, and Magong on Penghu.
- (2) The mainland will open 48 seaports and 15 river ports, for a total of 63 ports, listed as follows: the 48 seaports of Dandong, Dalian, Yingkou, Tangshan, Jinzhou, Qinhuangdao, Tianjin, Huanghua, Weihai, Yantai, Longkou, Lanshan, Rizhao, Qingdao, Lianyungang, Dafeng, Shanghai, Ningpo, Danshan, Taizhou, Jiaxing, Wenzhou, Fuzhou, Songxia, Ningde, Quanzhou, Xiaocuo, Xiuyu, Zhangzhou, Xiamen, Shantou, Chaozhou, Huizhou, Shekou, Yantian, Chiwan, Mawan, Humen, Guangzhou, Zhuhai, Maoming, Zhanjiang, Beihai, Fangcheng, Qinzhou, Haikou, Sanya and Yangpu, and the 15 river ports of Taicang, Nantong, Zhangjiagang, Jiangyang, Yangzhou, Changshou, Changzhou, Taizhou, Zhenjiang, Nanjing, Wuhu, Ma’anshan, Jiujiang, Wuhan and Chenglingji.

3. Putting aside disputes, temporarily not displaying flags

Having discussed the problem of flag display by vessels registered on either side of the Taiwan Strait in the spirit of putting aside disputes, the two sides have agreed to observe the relevant arrangements made in the Taiwan-Hong Kong Shipping Negotiations in 1997, with vessels registered on either side abstaining from flying their flag on the stern or mainmast of the vessel between entering and leaving the other side's ports, but flying additional company flags for vessel identification.

4. Transport capacity arrangements, equal participation

The two sides' operation of direct cross-strait passenger and cargo transport will be based on the principles of equal participation and orderly competition, with rational arrangement of transport capacity.

5. Mutual tax exemption, to lower costs

The two sides will mutually exempt each other's shipping companies from the payment of business and income tax on revenue derived from participation in cross-strait shipping.

6. Mutual establishment of entities to facilitate operations

The two sides' shipping companies may establish offices or business entities on each other's side of the strait to facilitate the development of transport service related business.

7. Cooperation in disaster rescue for safety protection

The establishment of a sea disaster search and rescue liaison and cooperation mechanism, to jointly protect the safety of life, property and the environment at sea. When an accident occurs at sea, the two sides, in addition to promptly notifying each other, will promptly undertake rescue and assistance in accordance with the principles of proximity and convenience.

III. Economic advantages greatly enhanced by direct cross-strait sea transport

1. Considerable shipment time and cost savings

(1) In the past, without direct shipping, vessels going to sea from Taiwan's ports en route to the mainland must detour via Japan's Ishigaki Island before sailing on to their mainland destination, wasting both time and fuel. But after the reaching of agreement on direct sea transport at the 2nd Chiang-Chen talks, there is no longer any need to sail via Ishigaki, saving on average approximately 16~27 hours per voyage, and reducing shipping costs by 15~30%. Including third-territory visa costs, the cost saving per voyage amounts to NT\$300,000, which for 4,000 voyages per year adds up to a yearly saving of NT\$1.2 billion.

(2) Also, a study has found that a 10,000-ton container ship can save approximately NT\$600,000 per voyage, and a regular container line can save from NT\$620 million to NT\$1.3 billion per year (depending on the port of detour). A bulk carrier operating under a nonscheduled service can save one to two days per voyage, reducing ore and coal shipment costs by roughly 18.7%, and reducing the shipment cost of other trade goods and materials by roughly 33.8%, with annual cost savings estimated at up to NT\$1 billion.

2. Greatly enhancing the efficiency of goods distribution

Direct sea transport not only can greatly reduce cargo shipment time and costs, but also can induce firms to use ports or their surrounding areas to develop logistics operations, and they can even link up with airports to create sea-air multimodal distribution and other high value-added activities, and develop ports into international distribution hubs.

3. Opening new opportunities for exporting farm products to the mainland

- (1) Direct cross-strait sea transport can shorten the consignment time for exporting Taiwan's farm products to the mainland. To take the export of fruit from Taiwan to Shanghai as an example, without the need to sail via a third territory, the shipment time can be reduced from eight days to four, preserving the freshness and quality of the fruit. Wastage during consignment can be reduced from 15% to 5%, and the fruit's shelf life can be extended by four days, generating even greater cost savings.
- (2) According to Council of Agriculture statistics, direct cross-strait sea transport could increase Taiwan's fruit exports to the mainland by approximately 20%. Moreover, continuous and stable export sales will have substantive benefit for establishing stable marketing channels and promoting balance in domestic fruit production and marketing, helping to stabilize domestic market prices and safeguarding farmers' incomes. It has been estimated that direct shipping could reduce shipment costs by 15~30% and increase fruit farmers' incomes by approximately 10~15%. Furthermore, sea transport can be used to send flowers to Shanghai and other mainland markets, or for transshipment to Russia; in Taiwan's winter season, vegetables can also be marketed in China's northeast region and transshipped to Russia; and farmed live fish (such as ornamental fish and grouper) can be shipped for sale in mainland markets – all opening up new opportunities for the sale of Taiwan's farm products in the mainland.

4. Developing Taiwan into a sea and air logistics hub

- (1) Taiwan occupies a prime geographic location at the center of the Asia-Pacific region. Direct cross-strait sea transport can help its ports step up their role in forwarding mainland exports to America and Europe. It can also reduce Taiwan's manufacturing and export costs, strengthen the competitiveness of Taiwan-based enterprises, and induce Taiwanese businesses to use Taiwan as an operations headquarters and global logistics hub.

(2) Direct cross-strait sea transport will also help reduce the operating costs of foreign enterprises that are positioned on both sides of the Taiwan Strait. This can increase the number of foreign firms that are attracted to set up operations headquarters in Taiwan, while also inducing foreign firms to form strategic alliances with Taiwanese businesses, both to enter the mainland and to tap into Taiwan's strategic advantages as a "gateway to Asia."

IV. Conclusion

With the signing of the Cross-Strait Sea Transport Agreement, direct cross-strait sea transport has basically been realized. It means that vessels crossing between the two sides of the Taiwan Strait will no longer need to detour via a third territory, greatly reducing shipping times and costs. At the same time, the elimination of obstacles to domestic vessels participating in cross-strait shipping will also be helpful to strengthening the competitiveness of the domestic shipping fleet. Thanks to the benefits delivered by this agreement, Taiwan's ports will be able to fully capitalize on their geographic advantage and, with the realization of direct cross-strait shipping and flights, develop into sea and air logistics hubs. Taiwan's industrial development will also gain from the expansion of exports to the mainland facilitated by direct shipping, which will be especially beneficial to the export of Taiwan's farm products. And last but not least, it will enable businesses to set up a more efficient division of labor between the two sides of the strait, inducing industries to deeply cultivate Taiwan and leave their roots in this land.