Module 4 Implication of Hanjin shipping Bankruptcy on maritime industry

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Outline

1. To review development and contribution of Hanjin Shipping company
2. To highlight main reasons of Hanjin Shipping’s bankruptcy incident
3. To explore the impact of Hanjin shipping bankruptcy incident on Korea shipping industry
4. To highlight the complications of Hanjin shipping bankruptcy on shipping industry
5. Conclusion and suggestion
1. To review development and contribution of Hanjin Shipping company

1.1 Evolution of Hanjin Shipping

- Hanjin Shipping is a shipping company under the Hanjin Group of the Republic of Korea. It is the 7th largest shipping group in the world and the largest world-class freight company in Korea. It is mainly composed of more than 200 container ships, bulk carriers and LNG carriers.

- It operates more than 60 liner and tramp routes around the world and transports more than 90 ports in 35 countries, including 14 dedicated container terminals and 2 logistics transshipment centers, transporting hundreds of millions tons of goods annually to all over the world.
1.2 Contributions of Hanjin Shipping

- The Korean shipping industry accounts for 2.5% of GDP.
- The turnover reached 39 trillion won.
- Earning money for foreign exchange reached 26.6 billion US dollars,
- Accounting for the seventh output industry,
- The total number of seaborne vessels has been the fifth largest in the world.
- Hanjin Shipping was established in 1977.
- After 39 years of cold weather, Busan Port has reached the third largest container port in the world, ranking the second largest in the world.
2. To highlight main reasons of Hanjin Shipping’s bankruptcy incident

- 2.1 The history of Hanjin Shipping Bankruptcy
- 2.2 Main causes of Hanjin Shipping’s bankruptcy
2. To highlight main reasons of Hanjin Shipping’s bankruptcy incident

2.1 The history of Hanjin Shipping Bankruptcy

- **2016/8** The Korea Industrial Bank rejected the 500 billion won self-help plan of Hanjin Shipping.
- **2016/8** Announced that the board of directors has filed for bankruptcy protection and suspended all shipping services.
- **2016/9** Korea’s largest creditor, the Korea Industrial Bank (KDB), decided to stop providing financial assistance to the company since September 4.
- **2017/2** South Korean court officially declared Hanjin Shipping bankrupt
Once the 7th largest sea transport company in the world
(Data from Sept 2016)

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<tr>
<th>Company</th>
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Founded in 1977
Headquarters: South Korea

Thousand TEUs

Shares

Filed for bankruptcy protection on Aug 31, 2016

Sources: Alphaliner/Google Finance/AFP Photo: David McNew
2.2 Main causes of Hanjin Shipping’s bankruptcy

1. Poor business management

Hanjin Shipping is the 7th largest container shipping company in the world. In recent years, the international trade has been sluggish and the maritime market has been poor. In the past five years, Hanjin has paid a loss transcript of 4 degrees. As of the end of 2015, the debt ratio reached 847.8%. Hanjin’s 395 billion Korean corporate bonds were expired in 2016, but as of the end of last year, there were only 241 billion won.
2. **Shareholders do not support actively**

- Creditors have sought financial assistance of 7,000 billion won from Hanjin Group which is a major shareholder of Hanjin Shipping. However, according to Hanjin Group’s relations, “there is currently 1 trillion Korean for Hanjin Shipping, so if you add another 400 billion Korean won.

- In the case of the above-mentioned financial aid, the group as a whole may also be in crisis. Therefore, main shareholders are considered to abandon the operation rights of Hanjin Shipping.
The financial situation of Hanjin Shipping has been affected by the sluggish international trade in recent years and the poor shipping market. As of the end of 2015, the debt was as high as 6.6 trillion won and the debt ratio was nearly 850%. It is estimated that the whole year of 2016 will lose $5 billion Korea won.
3. Negative attitude response of new and old presidents

- Hanjin Shipping, the world's 7th largest and Korea's largest consignment company, filed for bankruptcy protection at the end of last month. The parent company Hanjin Group provided 100 billion Korean donations, of which 40 billion won were from President Zhao Liangwei.

- In addition to Zhao Liangwei, former vice president Cui Enying also promised to pay 9 billion Korean won, which is also owned by Hanjin Group, and is also a shareholder of Hanjin Shipping. It has already borrowed 60 billion won from Hanjin Shipping.
4. Korean policy bank does not support

- Due to poor long-term financial situation, in May 2016, Hanjin Shipping had begun restructuring under the leadership of creditors, but at the end of August, the company’s largest creditor, South Korea’s Industrial Bank, rejected the plan and decided to end all of it in early September. Jin Yuan, this has also become an important factor leading to the road to bankruptcy of Hanjin Shipping. This time Hanjin Shipping filed for bankruptcy protection, mainly because the largest creditor, the Korea Industrial Bank, refused the debt restructuring plan.
In fact, the Korea Industrial Bank is also the main gold owner of modern merchant ships. Some insiders analyzed that the Korea Industrial Bank rejected the reorganization plan of Hanjin Shipping and hoped that the Korean shipping business would be integrated.
5. **Government’s negative response**

- The Korean government said that the government or the central bank will not directly inject funds into the company for restructuring, but will provide support to SMEs affected by the restructuring, including providing low-cost loans and providing funds to maintain the position of the shipbuilding industry, and also assisting heavily affected areas. At the same time, the government arranged HMM and other small shipping companies took over the routes originally operated by Hanjin Shipping.
Meanwhile, President Park Geun-hye criticized Hanjin Shipping, saying that the company thought the government would rescue, but she stressed that the government will not blindly support enterprises with financial problems, and these enterprises should first tighten their finances.
6. The end of the road

- Hanjin Shipping proposed an independent reconstruction plan on August 19 or 20, and Hanjin Shipping Creditors pointed out that "If Hanjin Shipping cannot raise enough funds, there is no choice but to enter statutory management."

- At the meeting of the board of directors of Hanjin Shipping Company, it was decided to apply to the Central District Court of Seoul for statutory management (referring to the enterprises that are on the verge of bankruptcy), and the third party is appointed by the court in February 2017.
3. To explore the impact of Hanjin shipping bankruptcy incident on Korea shipping industry

3.1 Impact on the Korean port industry

1. Late delivery of the export shipments

- After Hanjin Shipping filed for bankruptcy protection at the end of August, Hanjin had 93 ships on the sea, and 51 ports around the world refused Hanjin’s vessels to enter Hong Kong, involving goods worth about $14.5 billion.
- Although many cargo ships have been allowed to enter the port to unload cargo with the intervention of the court, some of them are still being detained; the incident has also affected Korean exports.
Many companies have previously used Hanjin Shipping's transport service because of the bankruptcy of Hanjin Shipping without warning in advance, which has caused the goods to be stranded on the high seas and cannot be delivered to the destination. For example, Samsung Electronics of Korea has as many as 16 containers, the goods are still on the high seas with Hanjin Shipping, worth about USD 38 million.

Because the major ports around the world are worried, once the Hanjin shipping container ship is put into the port for unloading, the relevant port charges and unloading costs, the port will probably have no way to ask for it. Samsung Electronics appointed a lawyer to say helplessly: "The situation is like now. After you got on the bus, you were temporarily told that you could not get off."
2. *Shifting effect of Transshipment containers*

- The container handling capacity of Busan Port in 2016 was 19.41 million containers, which was about 0.3% lower than the 19.51 million containers in 2015. Among them, the import and export volume was 9.84 million, an increase of 2.3% over the previous year's 9.36 million. The number of transshipment containers was 9.84 million by a decrease of 2.6%.

- The decrease in the number of containers was mainly due to the sluggish shipping market and the bankruptcy of Hanjin. In order to avoid the shifting effect of the transshipment containers, Busan Port Authority carried out port marketing for shipowners and shippers in Vietnam, West Japan, China Jilin and Heilongjiang Provinces and Russia, hoping to reduce the situation of shifting containers.
3. **Hanjin containers being divided by foreign liners**

- Hanjin Shipping was in trouble and was taken over by the court. Up to 14 billion US dollars of goods were put on hold. Shipping companies in China, the Netherlands, Switzerland and Taiwan have added cargo ships to share the cargo. The Korean industry is worried that if large shipping companies eat all the business of Hanjin Shipping, then Korea's ports are likely to be marginalized, and Shanghai Port is expected to benefit.
The Korean Daily reported that Maersk Line in terms of the world's largest container shipping giant, announced on the company received many calls for help. In order to meet customer demand, next week it plans to open links to Shanghai, Busan and Los Angeles. The new route is transported by six container ships with a cargo capacity of 4,000 TEU.

Mediterranean shipping, the world's second-largest shipping company, will also open new routes connecting China, Busan and Canada next week, while COSCO in mainland China and Yang Ming line in Taiwan will also ship to meet shipping demand in Asia and the United States.
4. The number of alliance routes and container volume being dropped

- In April 2017, the shipping strategy alliance will be reduced from the current four including 2M, O3, CKYHE and G6 to 2M+H, Ocean and THE Alliance. According to the Korea Maritime Institute report, the number of re-export containers at Busan Port will be reduced by 350,000 TEUs due to the adjustment of the alliance route. The number of trans-Pacific routes will be reduced from the current 15 to 13, and the far-European routes will be 3 from now.

- The decline in the number of alliance routes will reduce the number of transshipment containers in the future, the port of Busan will be containers from the North China port and the Japanese port. It will be adapted from the alliance route and the cargo will be reduced by more than 40%.
5. Unemployed seafarer crew drifting at sea

- After HanJin’s bankruptcy announcement, the auction ship has already been punished. The most miserable crew of Hanjin Shipping Company, which has two missing nets, is floating in the sea. The 5,000-standard ship is in Singapore, and a 4000-class ship is in Canada, both of them belong to the bareboat charter contract with nationality conditions.

- The ownership belongs to foreign banks. The average 16-18 people on board are in need of assistance. The International Labor Union and local ship staffs stop providing on food and drinking water. Seafarers don’t know when they can leave the port. Korea crew member can only wait for assistance in the vast sea.
6. Soaring controversy with Shipper’s freight issues

- At the end of the year, the procurement season is approaching. It is now a crucial moment for the industry to establish inventory. Hanjin Shipping has made a big splash, which has greatly affected the shipping to and from Asia and North America. Reuters reported that as retailers are eager to find ships that transport goods before the end of the year, container shipping operators have announced that shipping rates will increase by 50% from October.
A report published by the US Department of Agriculture on Thursday (September 8th) showed that the rate of shipping 40-inch containers from the US West Coast to Asia has reached USD 1,700 this month, compared with $788 in May, freight rate has soared more than twice. According to the report, it is estimated that Hanjin Shipping will be taken over by the court, and the impact on port operations and routes will last for 2-3 months.
The shipbuilding industry is in a downturn

- Korea’s shipbuilding industry used to be the global number one industry. Due to the large expansion and the repeated investment of the chaebol, the recent oversupply of global shipping capacity caused the freight rate to fall, making the shipping company reluctant to build ships and replacing its own ships by chartering.

- Hanjin and Hyundai Merchant Marine have been on the verge of bankruptcy. The domestic demand for shipyards has been squandered at a low price. This has made the Korean shipyards operate in a miserable manner, and saw a large number of layoffs in the shipyard workers.
3.2 Korea government's response strategy to the Hanjin Shipping Bankruptcy

- Since the Korean Policy Bank did not extend the loan in August 2016, the Korean government has issued three conditions for Hanjin shipping including:
  1. Negotiate financial adjustments with creditor groups,
  2. Reduce ship charter costs,
  3. Join the Shipping Strategy Alliance. Hanjin Shipping

- Hanjin Shipping could not meet the first two requirements. In the end, the government did not support the fate of bankruptcy. This company once owned 141 ships and is now being detained or auctioned by the court, leaving only 1.7 trillion Korea won.
1. The government has dealt with the problem of unloading cargo

- The Korea Industrial Bank recently sent a letter to the Hyundai Merchant Marine ship’s overseas cargo owner to reveal that the bankruptcy of Hanjin Shipping is an established fact, and it has been difficult to return to life.

- This letter seems to indicate that the Korea Industrial Bank has decided to give up Hanjin Shipping when it decides to support 50 billion to Hanjin Shipping to solve the problem of ship docking and unloading. At the same time, it encourages overseas cargo owners to support another national ship, Hyundai Merchant Marine, and Korea government hope that Hyundai Merchant Marine is ready to receive the remaining good assets of Hanjin Shipping.
2. *Korea Ocean Revitalization Company*

- In the first half of 2018, the Korean government will provide South Korea Ocean Revitalization Co., Ltd. with a supply of 1 trillion 50 million won to support the company's provision of Korean merchant shipping company's ship financing to purchase new ships, the acquisition of logistics facilities at Hong Kong and Chongqing terminals, and the acquisition of second-hand ships. Sub-lease use, the number and situation forecast of the shipping market, and the dismantling of old ships.
The Korean government has replaced many Hanjin positions in support of HMM, and has introduced a number of ship financing measures, such as the establishment of a Korean marine company with a capital of 5 trillion won to assist airliners in the sale and re-leasing of old ships, new ship financing, and purchase and transfer of Hanjin terminals at home and abroad. However, whether the HMM will turn from a loss to a profit this year, successfully replaced Hanjin as the ninth largest position in the past, still needs time to observe.
3. Mission impossible for HMM replacing Hanjin shipping’s position

- HMM's 2017 yield is 6%, which is worse than the same period last year. Even if 46% of the cargo volume grows, the revenue per container is 973 US dollars, compared with the previous year's 1037 US dollars, a lot of recession. The yields of other shipping companies averaged 4%-28%. The performance of HMM was not as good as expected. Although it was added to 2M, it seems that there is no rain and dew. What is the problem?
When the HMM was in financial crisis, the Korean government asked him to join the alliance. The government was willing to save him and was forced to join the results. The main routes are still in the hands of foreign businessmen.

According to the report of the Korea Maritime Institute, only 16% of the cargo load rate from Korea to North America is carried by the national ships. Others are foreign ships. It can be seen that the HMM did not fully inherit the cargo volume from Hanjin’s bankruptcy because most of them were taken away by foreign liners.
4. HMM amending development strategic

HMM announced that it will build a new fleet to expand the fleet by 2021 to make the ship's capacity account for 5% of the global market. The world famous container magazine Alphaliner criticized this development goal as "unrealistic". Modern merchant ship boldly predicts 2021 in the year, the company's global capacity will increase from 2.2% to 5%, almost twice as much. In order to achieve 5% of the world's ship capacity, the HMM will increase from the current 455,000 TEU to 1.1 million TEU, and its representative will increase 650,000 TEU by 2021. However, there is no shipbuilding plan in the near future, so to achieve the goal, it still takes time to implement.
HMM president Liu Canggen said that if the Korean government is willing to support the company to build a 1 million TEU standard container ship, it is very optimistic. However, it takes 40 ships to build a one-million-sized transport capacity.

The cost is nearly 9 trillion won. So far, the Korean commercial bank has not discussed it, so HMM hopes the government will respond positively.
In addition, Ryu dong-geun, an expert at Korea Ocean University, pointed out that Hanjin Shipping's business is all divided by multinational shipping giants, so the survival of South Korean companies such as HMM is bound to be threatened.

The number of vessels under Maersk and MSC is 8-10 times that of Korean operators, and some container ships have a cargo capacity of up to 18,000 TEU. So far, Korean operators have not had such a scale. The greater the cargo capacity of the container ship, the higher the price competitiveness.
HMM asked the Korea Development Bank for 9.9 trillion won, nearly 10 trillion won, of which the purchase of ships was 5.6 trillion won, the container was 3.3 trillion won and the acquisition of overseas terminals was 1 trillion won. In order to upgrade the fifteenth place to the eighth global container company ranking in 2022.

However, with the help of national taxpayers, if the HMM business fails, it will be drained, and it will be criticized. There are still problems in the modern financial situation.

In line with the government's acquisition of Hanjin's overseas assets, it is frankly necessary to stop bleeding to reduce costs. Otherwise, it will be very hard to invest a lot of cash to save him.
5. Rapidly declining in Korea's shipping competitiveness

- Since the bankruptcy of Hanjin Shipping, the Korean government has actively proposed to support the domestic navigation business plan, but the results are still not as expected. All domestic shipping transportation capacity decreased from 1.05 million TEU in August 2016 to 390,000 TEU in August 2017; the transatlantic route occupancy rate decreased from 10.9% in August 2016 to 5.8% in August 2017.

- The domestic cargo load rate in Busan Port decreased from 38.1% in August 2016 to 34.2% in August 2017, which shows that the competitiveness of Korean shipping is declining.
In September 2016, Hanjin Bankruptcy was taken over by the court. Some vessels and navigation rights were taken over by HMM and the newly established SM Line in Korea. At present, the combined carrying capacity of HMM and SM Shipping is only 390,000 TEU, which is far less than the combined carrying capacity of 1.05 million TEU of Hanjin Shipping and HMM at the end of August 2017.
4. the complications of Hanjin shipping bankruptcy on shipping industry

1. Strong administrative power interference for keeping market order

- The government has taken measures to reduce Hanjin’s impact on freight rates of domestic market after Hanjin Shipping Company filed a bankruptcy with the Seoul Court of South Korea on August 31 2016. In order to maintain the shipping order, the Maritime and Port Bureau of the Ministry of Transportation and Communications September 7 2016 appealed to the relevant shipping operators to charge and release the goods in accordance with the "shipping transportation freight rate table" and the "Freight forwarder freight rate table".
Traders are not allowed to detain goods at will, affecting the import and export trade. The Maritime and Port Bureau reminds all importers and exporters that if they are prepaid the freight in advance, they should pick up the goods as soon as possible after the proof; if the freight is the cash on delivery, they should pay the required shipping fee.

For those who have not reported to the Maritime and Port Bureau for inspection and collection fees, and arbitrarily raise the fees or disrupt the shipping order, the MPB will investigate and impose a punishment according to the shipping industry law.
2. Taking over HJ terminal assets and labor workforces in Taiwan

- Taiwanese employees in Hanjin shipping company are in the unstable status while they have heard that the company accepts the bankruptcy management of the court, and it is understandable that the future is unclear. At that time, the Taiwan International Port Company should pay attention to the issue of Hanjin’s withdrawal of the dedicated terminal, and how to deal with the problem of Taiwan’s labor employment and compensation.
It is reported that the salary of the employees has been settled in 2016 and the seafarer crew member has arranged to dismiss the disembarkation.

In addition, the Korean government subsidized HMM to take over the acquisition of Hanjin's container terminals, assets and employees at home and abroad. In Kaohsiung Port, it received three original Hanjin leased dedicated terminals in May 2017, and transferred the original labor workers to the HMM, and took over terminal handling service of Maersk and MSC with the shipment capacity of 500,000 to 600,000 TEU containers per year, it is believed that the impact on Kaohsiung Port's revenue and handling capacity is minimized.
3. Shipping industry upgrading and revitalization measures

- The 60 billion TWD loan target is mainly limited to the four-season loss of the national shipping company. Among the container shipping companies, for example, Yangming, Evergreen, and Wan hai line are eligible. Among them, Yangming and Evergreen have a huge international transportation relationship. In the past four seasons, Yangming Shipping has accumulated losses of 16.826 billion TWD and Evergreen also lost 8.914 billion TWD.
4. Insufficient ship finance aid policies and measures

Taiwanese government's shipbuilding financing policy is insufficient in comparison of neighboring nations like Japan and Korea implementing the vigorous ship building business coordination between shipyards and banks, the ship financing business has become more prosperity and advance development. Yangming had been order 15x 14,000 TEU typed container ships in 2017, 10 ships in Samsung ship builder and 5 ships in Taiwan ship builder, because Yangming is a national shipping company has enhance cooperation and upgrade shipbuilding technology more than 10,000 TEU class of Taiwan builder named CSBC corporation.
Since the abolition of the national shipbuilding policy in 1977, no ship financing policy has been issued, and Taiwanese ships must rely on their own lives. Even credit guarantees must find their own solutions. In the past, Taiwan Bank and Bank of Transportation in terms of policy banks to provide loans to support domestic shipping companies in the ship building business.

Whereas at present domestic shipping companies now only rely on the national patriotism to build a ship without any ship finance aid from government. In effect, the government should consider formulating our ship financing policy to support the national shipbuilding business and develop the ship financial market.
5. Conclusion

1. Cherish the contribution of the national shipping company

- In 2017, Busan Port will be reorganized by the Maritime Union and Hanjin bankruptcy. It is estimated that the trans-Pacific and Far Europe routes will add up to 350,000 container, causing trouble for Busan Port Corporation.

- In general, the national ship often uses its own national port as its home port and also suggest that the alliance route could be changed to the home port based on past container handling volume.
2. Taiwan shipping miserable business efforts to move forward

- Taiwan shipping miserable business efforts to move forward Taiwan's shipping industry is in the “Alphaliner 100”, a website specifically targeting the volume of shipping containers. It shows that Taiwan has four of the world's top 30 container shipping companies, namely Evergreen Shipping (5th) and Yangming Shipping (No. 7). Wanhai Shipping (17th) and T.S. Line (25th), Taiwan's land area is small, but in 2016, the size of the Taiwanese fleet was ranked 11th in the world.

- But look at South Korea. After the collapse of Hanjin, the world's sixth-largest shipping company, Hyundai Group became the leader of the Korean shipping industry, ranking 13th in the world. Taiwan's shipping industry is still among the best without any support by Taiwan government. It is believed that the Taiwan shipping industry's self-reliance and miserable operation is worthy of applause.
Module 4 - Implication of Hanjin shipping bankruptcy on maritime industry
3. Maritime trade being hit by high protectionism

BIMCO believes that the global trade protectionism will not be conducive to the development of the shipping industry. At the beginning of January 2017, 351 ships were suspended, with about 1.4 million TEUs, accounting for about 7% of the world's ship capacity.
After the Trump administration took office, the TPP was withdrawn and the bilateral free trade agreement was emphasized. We really hope that our Ministry of transportation and Communications will set up an assessment team or forum for the impact of US priority protectionism on Taiwan's shipping industry in the Trump era as soon as possible.

The Korea Maritime Institute estimates that the trade recession between Korea and the United States will be reduced by 300,000 to 700,000 TEU. However we do not have the protection of the Taiwan-US Free Trade Agreement. How many container volumes will Taiwan decline? This maritime trade issue is worthy of continuous attention.
4. Rigorous importance of corporate governance

- Hanjin Shipping Company is the largest container shipping company in Korea, but it is in a dilemma thanks to the rapid deterioration of its operating conditions. After the official announcement of bankruptcy, it has had a tremendous impact on the upstream and downstream related industrial chains of the global shipping industry.
This is the case in a freely competitive market. If there is no strict corporate governance, it is normal to transfer others to sell assets. If a Taiwanese shipping company is a family business, it will also worry whether the successors will continue to operate. If not, of course, it will be like Hanjin Shipping, it is heading for bankruptcy, so CEO should learn the lesson from the case of Hanjing Bankruptcy and implement the serious corporate governance and adopt the risk management countermeasure to deal with the difficult situation as well as Hanjin shipping company.
5. Regularly meeting and discussion with stakeholder community

In order to support the shipbuilding industry, the Korean government has introduced many ship financing schemes to shipping companies including state-owned bareboat charter contracts, ship investment companies, nationally required fleets and providing credit guarantees to shipyards, Although it once created the world's first record.

Recently, Korea has already abandoned four shipping companies, mainly because the government has not actively intervened in the rescue. The Taiwanese banking industry is not familiar with the shipping industry and only understands traditional loan methods.
After learning the lesson from the case of Hanjin bankruptcy incident, legislators and bankers need to know the critical importance of ship finance for the shipping industry. Taiwanese government agencies in terms of MOTC, the Maritime and Port Bureau, and the Taiwan International Ports corporate could invite the legislators to participate in the forum or symposium with the ship owner association and the port industry regularly. Although it is difficult to discuss anything in the meeting, we believe that it is helpful for the government and the private sector to work together to solve the difficulties of the shipping industry and improve the competitiveness of the national shipping companies.
~Thank you for listening~