REPORT ON MARITIME AFFAIRS (SUMMARY)

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Part I: Important Tasks for Maritime Administration

Chapter 1: Ideal Means of Stable Marine Transport in future

1. On the Assurance of Stable International Marine Transport

- **Efforts to assure the global competitiveness of Japanese ocean-going shipping service operators and a planned increase of Japanese-flag ships and Japanese seafarers [study of tonnage-geared standard tax system and so forth]**

Consultation in search for the "Ideal Means of Stable Marine Transport in future" was conducted by the Minister of Land, Infrastructure and Transport to the Council of Transport Policy on February 8, in order to ask the Council to discuss the means of assuring stable marine transport indispensable for Japan to accomplish continued sustainable growth as a maritime and trading nation in a global international economic community. Following the consultation, an "International Marine Transport Task Force" was established, composed of members with wide knowledge, representing various circles, such as individuals of experience and academic standing in the areas of trade of resources and energy, finance, traffic economy and so forth.

In the interim summary report of June 28 that was made following discussion in five meetings of this task force, the policy aims were drastically condensed into "Assurance of the global competitiveness of Japanese ocean-going shipping service operators" and "Securing Japanese-flag ships and Japanese seafarers", while as for measures to achieve the policy aims concerned, the introduction of the laws for, among others, ① the introduction of a tonnage-geared standard tax system, ② securing of Japanese-flag ships and Japanese seafarers and so forth were enumerated.

Hereafter, the decision was taken to work on constructing an institutional framework to target stable international maritime transport based on the interim summary report.

2. Efforts to Secure and Nurture Human Resources for the Sound Development of the Maritime Industry

- **Efforts to gather, nurture seafarers and target their career development to support them in transforming themselves into land-based ocean engineers**

Marine transport, which is indispensable for the society and economy of Japan as a maritime state, is supported by seafarers engaged in ship navigation and ocean engineers who manage and support it on land. In securing the safety and stability of marine transport, the role played by seafarers (ocean engineers) as the human infrastructure is considerable. Since the valuation related to the navigational safety of Japanese-flag ships and ships served by Japanese seafarers on board is extremely high in these days, the government should positively promote efforts to secure and nurture excellent Japanese seafarers (ocean engineers). With this in mind, the Human Infrastructure Task Force was established within the Maritime Affairs Subcommittee of the Traffic Policy Council, which investigated and discussed an ideal maritime policy to secure and nurture human resources in the field of maritime affairs, focusing on securing and nurturing excellent Japanese seafarers (ocean engineers) in February 2007. Subsequently, an interim summary report to the effect that efforts were required mainly for four measures, namely nurturing seafarers, gathering them, targeting their career development and supporting their transformation into ocean engineers on land was made in June, 2007, with the necessary institutional revision and so forth scheduled to be carried out in future. Moreover, with a view to nurturing young seafarers, who will play a key role in the Japanese marine transport of

the next generation, the Promotion Council for Securing and Nurturing Ocean-going Japanese Seafarers (Ocean Engineers) is to be established in April, 2007 under an agreement among the Japanese Shipowners' Association, All Japan Seamen's Union, and the Ministry of Land, Infrastructure and Transport, with a plan to start the "Scheme for Securing and Nurturing Japanese Ocean-going Seafarers (Ocean Engineers)" to promote their career development into seafarers (ocean engineers), letting them have actual operational experiences so that they can readily serve on board ships as experts from October 2007.

- **Support program to develop next-generation human resources in the shipbuilding industry**

Since nearly half the skilled technical experts for shipbuilding in the Japanese shipping industry are over 50 years old, an unprecedented rapid and large-scale alternation of generation will take place in the coming decade. If effective countermeasures are not taken under such circumstances, the level of technique at manufacturing sites, which has underpinned the international competitiveness of the Japanese shipbuilding industry to date, will be abruptly degraded, which might lead to the loss of such competitiveness. With such conditions in mind, an intensive training project commenced from fiscal 2004 to ensure "expert workman (takumi)" techniques related to shipbuilding, could be smoothly passed on to the younger generation. The Maritime Bureau is providing assistance for this project through The Cooperative Association of Japan Shipbuilders. In 2006, the "Nagasaki Area Shipbuilding and Ship Machinery Industries Technological Training Center" was established, and a human resources development project has been underway since April, 2007. The Maritime Bureau took the decision to continue actively providing support in this field.

Chapter 2: Assurance of Safe, Secure and Environmentally-Friendly Marine Transport

1. Reinforcement of Safety Assurance Measures

- **Reinforcement of the audit of safety management and seafarers labor / guidance system**

In recent years, there have been intense efforts to ensure navigational safety in the form of the appropriate navigational control of ships and improved working environment of seafarers, since accidents involving ships, including coastal freighters or ultrahigh-speed vessels, have been occurring.

The safety assurance of vessel navigation is the responsibility of the Inspector for Safety Management and Seafarers Labor, who is appointed in each regional transport bureau and so forth, after the unification of the Inspector of Navigation in charge of inspection on safety management of passenger boats as well as the freighters and the Inspector of Seafarer's Labor in charge of the working conditions of seafarers. Therefore, an efficient and agile audit can be performed by the executive officer, who has a wide supervisory authority related to the business laws (Maritime Transportation Law, Coastal Shipping Business Law) and seafarers-related laws (Seafarers Law, Seafarers Employment Security Law, Law For Ships' Officers And Boats' Operators).

Moreover, the training system has been reinforced, and a new audit system has been constructed, capable of checking the past audit status, record of contraventions and so forth anytime on the spot during the audit, in order to enhance accuracy when the Inspector for Safety Management and Seafarers Labor is executing duties over a wide area. At the same time, Safety

Management Seafarers Labor Division was created in July 2006 in the Maritime Bureau of the Ministry of Land, Infrastructure and Transport, in order to conduct unified planning / gestation and guidance for the services to be provided by the Inspector for Safety Management and Seafarer's Labor.

• Measures to prevent recurrence when a serious accident occurs

When a serious ship accident occurs, measures are taken, with the cooperation of the Japan Coast Guard and so forth, such as prompt inspection, an examination to find out the cause, reprimand or guidance of the party concerned, in accordance with the laws for reconstructing the safety management system, and the implementation of thorough safety management in order to prevent the recurrence of similar accidents on a nationwide basis and so forth. In fiscal 2006, measures were taken for the large-scale car ferry accident in the offing of the Oarai port, the oceangoing vessel grounding accident in the offing of the Kashima port and so forth.

• Measures to ensure the safety of ultrahigh-speed vessels

In recent years, accidents caused by the collision of hydrofoil type ultrahigh-speed vessels, navigating at a high velocity of about 40 knots, and whales and the like have occurred one after the other in the seas around Japan. In consideration of such circumstances, the Ministry of Land, Infrastructure and Transport established the "Safety Measures Advisory Committee for Ultrahigh-Speed Vessels" in April, 2006 to study how to ensure the safety of hydrofoil type ultrahigh-speed vessels and finalized an interim summary report in August the same year. Moreover, it was decided that unified guidelines for the content of training and the training period for the navigation personnel of hydrofoil type ultrahigh-speed ships should be provided, and it has also been decided that the "Guidelines for the Training of Navigation Personnel of Hydrofoil Type Ultrahigh-Speed Vessels" are to be formulated to improve the training level by the end of fiscal 2007.

• Introduction of transport safety management system

"Law Revising a Part of the Railway Business Law etc. for the Improvement of the Safety of Transportation" (Law No. 19 of 2006) was approved in the Diet and put into effect in October, 2006, to deal with circumstances whereby the trust in the safety of public transportation facilities for the nation was seriously eroded and seek to enhance the safety management system. Thereby, the transport safety management system was applied to the marine transportation field in addition to traffic fields, such as rail and air transport.

• Implementation of The Voluntary IMO Member State Audit Scheme

In the wake of large-scale accidents involving oil spillages from tankers, there has been an increasingly urgent need to eliminate substandard vessels. The background involves the present situation having been illustrated, in which the government of the flag state has failed to satisfactorily meet obligations to supervise and oversee ships of its own flag, to ensure they observe the international standard.

With such a situation, a "Ministerial Conference on Transport" was held in Tokyo in January, 2002, in which Japan advocated the establishment of an audit scheme by International Maritime Organization (IMO) on the enforcement of the conventions by the flag states, and after considerations under IMO to seek a means to have the government of the flag state meet its obligations under the conventions and subsequently to introduce the audit scheme, the implementation of the audit scheme was adopted at the 24th Session of the IMO Assembly in December, 2005, and has started since September, 2006.

Japan accepted the audit in February, 2007, and the maritime affairs administration of

Japan received a high overall assessment, in recognition of the fact that the operation is conducted comprehensively and efficiently to meet obligations under the international conventions, from all the viewpoints of flag, port and coastal state, including the construction of the "Maritime Affairs Quality Management System", the nurturing of inspectors, and the establishment of the system of Port State Control (PSC) implementation and so forth. However it was pointed out that it is necessary to strengthen the audit of overseas offices of the ship classification association and the on-the-spot inspection of Japanese ships, which the classification society is checking periodically at once.

It is recognized as vital for developing countries to participate in the audit scheme, owing to the exclusion of substandard ships. Therefore, it has been decided to positively contribute to the development and improve the effectiveness of the audit scheme by utilizing the experience in accepting the audit, in order to promote the establishment of the scheme, which is implemented on a voluntary basis, as early as possible among Member States.

• Drastic reform of the pilotage system

As Japanese seafarers have become increasingly scarce in recent years, a shortage of pilots with sea captain experience is anticipated in the near future, raising apprehension of a potential inability to maintain smooth shipping traffic operations. Furthermore, in view of the increasing demand for improved operational efficiency / accuracy of the piloting service forming part of the port service, and based on the perspective of strengthening the international competitiveness of Japanese ports, the "Council for the Reform of Japan's Pilotage Service System" was established, within which discussions concerning the desirable nature of the pilotage system took place, and a bill partially amending the Marine Pilot Law ("Bill for the Partial Amendment of the Port Law and Others for Strengthening the Basis of Maritime Distribution") was promulgated on May 17, 2006.

While securing excellent pilots through nurturing pilots and the adequate supervision of license renewal courses for the registered pilots, and aiming to ensure the safety of the shipping traffic, implementing proper guidance and supervision of the Pilots' Association and the Japan Federation of Pilots' Associations is intended to ensure the adequacy of the pilotage operation, as well as operating the new pilotage system in such a way as to improve the efficiency of the pilotage operation through appropriate screening when the upper limit of the pilotage dues are authorized to establish a rate level reflecting the cost properly and so forth.

2. Reinforcement of Maritime Security Measures

• Reinforcement of safety and security measures in the Straits of Malacca and Singapore

In order to promote the measures against piracy and armed robbery against ships, the guideline was compiled in March 2006. Based on this guideline, Ministry of Land, Infrastructure and Transport has decided to promote various measures even more strongly in order to reduce the number of the incidents by pirates and armed robbers, through efforts for cooperation with related agencies and shipping industries, and through enhancement of maritime security in international society.

As part of efforts for international cooperation in the Straits of Malacca and Singapore, a survey of traffic volume was conducted to gage how many ships were actually navigating in the Straits. The results of a survey made clear that beside Japan, many other countries were the beneficiaries in various ways from the passage through the Straits. And the number of ships navigating in the Straits is projected to increase by 50% from 2004 to 2020 by our survey. At the "Kuala Lumpur Meeting", held in September 2006, the Projects and the Cooperative Mechanism

for enhancing safety of navigation and environmental protection were proposed by the littoral states, and the "Kuala Lumpur Statement" was adopted, outlining cooperation and so forth, toward establishing mechanism to provide funding for the projects such as replacement and maintenance of Aids to Navigation. In order to establish a new framework for international cooperation including foundation of Aids to Navigation Fund, Japan, as one of the major user states of the Straits, contribute proactively to the future progress of discussions at international conferences and so forth.

3. Tackling Environmental Problems

• Countermeasures against global warming

In order to attain the targets for reduction in the Kyoto Protocol through the promotion of a modal shift from transportation by truck to coastal shipping and so forth, the targeted goal in the maritime transportation-related sector is a reduction of around 1.4 million tons in the CO_2 emission volume by fiscal 2010, and the Maritime Bureau is implementing "Comprehensive Measures for the Greening of Maritime Transportation" in order to attain the said reduction target.

In addition, in order to prevent any increase in the CO_2 emission volume from the transportation sector, such as from automobiles and ships, using petroleum and similar fuels, the Energy Saving Law was revised in fiscal 2005 (put in force on April 1, 2006), which obliges shipping service operators with a transport capacity exceeding a certain scale (holding ships with gross tonnage of 20,000 tons or more) in the maritime transportation-related sector.

• Tackling ship recycling system at an international level

Since the poor conditions of the related labor environment, sea pollution originating from recycling yards and so forth are viewed as problems related to ship recycling (the dismantlement of ships) conducted in developing countries, such as India, in recent years, a study is underway in international organizations, such as the United Nations Environmental Programme (UNEP), International Maritime Organization (IMO), International Labour Organization (ILO) and so forth to try and solve such problems.

In particular, the IMO has decided to formulate a new convention concerning ship recycling in 2008-2009, and discussion of the convention draft is progressing, in which Japan actively participates from the standpoint of a country with significant maritime transport and shipbuilding.

The Maritime Bureau, having established the Ship Recycling Study Committee, comprising intellectuals knowledgeable in shipbuilding, maritime transport and the environment, is conducting comprehensive studies on ship recycling, including that of strategic measures to be taken in various international organizations, in order to establish an effective convention.

• Construction of an advanced recycling system for abandoned Fiber Reinforced Plastics (FRP) boats

Based on the achievements of the technology of recycling of FRP boats, which was established through research and development, as well as demonstration tests, under the "Project for the Construction of an Advanced Recycling System for Abandoned FRP Boats", and in order to meet the social requirements of securing an appropriate process method for FRP boats and establishing a recycling-based society and so forth, the recycling of FRP boats commenced in the Western Setouchi and Northern Kyushu regions in fiscal 2005, with the support of the Ministry of Land, Infrastructure and Transport and with the Japan Boating Industry Association as main promoter. Its nationwide deployment is projected for fiscal 2007.

• Efforts to ratify the ILO Maritime Labour Convention

At the 94th(Maritime) Session of the International Labour Organization (ILO) Conference held in February, 2006, the Maritime Labour Convention 2006 was adopted, which consolidates all the 60 or so conventions and similar bodies that have been adopted to date since the 1919 establishment of ILO, to ensure they reflect the present era, and simultaneously improve their effectiveness.

It has been decided that future efforts for the preparation and study required to ratify this convention, such as the arrangement of domestic laws, an enforcement system and so forth for governing inspections of flags state or PSC, etc. will be advanced, and, at the same time, coordination and cooperation with the countries in the Asia Pacific region will also be promoted in order to expedite ratification by the same.

Chapter 3: Tackling Other Main Policy Tasks

1. Efforts to Revitalize the Motor Boat Race Business

The Motor-Boat Racing business, since 1991 fiscal year, has continued to suffer from a long-term decline in the race business sales, which fell to about 970 billion yen in fiscal 2005 from about 2,200 billion yen in fiscal 1991. Consequently, the deterioration, not only in the promoters' earnings but also the financial position of the Motorboat Association of each local municipality, which are the actual promoters of Motor-Boat Racing, has become evident.

In the meanwhile, an "Important Policy of Administrative Reform", which was decided at the cabinet meeting in December, 2005, required, as part of a review of public tournament-related corporations, an overall review of matters such as the desirable ideal nature of the organization as well as that of the subsidizing system and transparency with respect to the intended purpose of the subsidy.

In order to deal with such changes in the social environment surrounding Motor-Boat Racing appropriately and achieve the aim of the Motor-Boat Racing Law to promote public business and contribute to local government finance, it has become necessary to improve the business operation of the promoters and conduct comprehensive restructuring of the framework, to facilitate the flexible implementation of the business in appropriate response to the changes in the social environment. With this in mind, the Motor-Boat Racing Low was revised accordingly (proclaimed on March 31, 2007).

2. Tackling Maritime Policy and Regional Revitalization and so Forth in the Area of Maritime Affairs

• Dealing with Basic Act on Ocean Policy

Basic Act on Ocean Policy, which contains the basic concepts of ocean policy, government responsibility, local public bodies and so forth, as well as basic measures etc., was passed and enacted on April 20 of this year (put in force on July 20, 2007).

While the Maritime Bureau has been promoting such various measures to date, including improvement in the environment of international competitiveness, assurance of stable transportation, promotion of the marine business and support for various kinds of research and development as well as nurturing and securing human resources, it has been recognized, in view of the enforcement of the "Marine Basic Law", that various measures toward the realization of a sea-oriented state shall be promoted concentrically and comprehensively in future, as in the past and the decision has also been taken to diligently strive for the further development of the marine industry as a whole and reinforcement of its international competitiveness.

• Efforts for regional revitalization

In view of the severely worsening circumstances surrounding public transport in local areas, the "Act for Revitalizing and Reviving Local Public Transport" was enacted in May, 2007 for the purpose of implementing measures for the smooth introduction of a new form of passenger transport service suited to local needs, as well as comprehensive government support for the joint efforts of related local parties led by the municipality, so that they may create attractive regions through the revitalization and revival of local public transport. Therefore, the Maritime Bureau has determined to work on revitalization of local public transport.

• Responding to the Asia Gateway Concept

By the Prime Minister's policy speech at the extraordinary diet session, which opened in the

autumn of 2006, the "Asia Gateway Concept" was presented, in which Japan is to play the role of a bridge between Asia and the world in terms of the flow of human resources, goods, money, culture and information. With this in mind, the Maritime Bureau decided to actively contribute in international conferences and so forth, to improve passage supporting facilities in order to promote safety measures in the Malacca-Singapore strait and elsewhere as well as to construct new frameworks of international cooperation. In addition, with a view to improving the safety and stability as well as international competitiveness of maritime transportation, not only of Japan but also of the entire Asian region, it has been decided that the "International Joint Program for Nurturing Asian Seafarers" will be formulated in future under the initiative of Japan for promotion in cooperation with Asian countries. In formulating the same program, there are plans to incorporate the "Expansion of the Training for Boarding the Ship in the Japanese Way" in the same, including practical training of boarding a ship financed by ODA, using a training ship of the National Institute for Sea Training and so forth as well as "Support for the Reform of the Seafarer Education System", under which Japan supports the reform of the entire seafarer education system in each of the Asian countries and so forth.

3. Efforts Exploiting the Advantage of Marine Transport

• Enhancing the appeal of voyages by sea and the promotion of coastal passenger ships, including encouragement of sightseeing tours to and from remote islands

In view of the interim proposal compiled at the "Roundtable Conference for Reviving the Attractiveness of Voyage by Sea" in June, 2006, the topics of "Enhancing the appeal of Voyages by Sea" and "Promotion of Sightseeing Tours to Remote Islands" have been positioned as the most important measures of fiscal 2006. With a view to enhancing the appeal of "Voyages by Sea in Casual Wear", the government, passenger ship industry, travel industry, and local related parties have combined their efforts to develop joint work for the strategic transmission of information to improve the perception of ships as well as the development and sales promotion of articles on voyages suited to users' needs.

The Committee for Promoting the Exchange of Sightseeing Tours to and from Remote Islands was established through the collaboration of 4 relevant bureaus (Comprehensive Policy Bureau, City and Regional Development Bureau, Maritime Bureau and Ports and Harbors Bureau) in March, 2007, in order to materialize the exchange of sightseeing tours to and from remote islands. This committee intends to support regions that are prepared to take the initiative in devising promotions for the exchange of sightseeing tours and made an interim proposal in July this year.

• Promotion of a future business model for coastal shipping

The coastal shipping industry has faced various problems, such as securing seafarers, building ships for replacement and safety assurance. However, under present circumstances, it is difficult for coastal shipping operators, who are mostly medium, small and micro enterprises, to work on these problems individually. Under such circumstances, a movement for the loose grouping of coastal shipping operators, utilizing ship administration companies, is attracting attention. It is important to promote these grouping movements as a new business model of coastal shipping for the future, in order to ensure stable marine transport and revitalize coastal shipping. For this purpose, the national government has positively started striving for its propagation and promotion.

• Promotion of a modal shift through a positive approach to shippers

In April 2006, the revised Rationalization in Energy Use Law, which obliges the transport

sector to take energy saving measures, was enacted in order to unfailingly implement measures for energy saving in the area of transportation and to further control CO_2 emissions originating from energy consumption. Under this law, shippers of cargo exceeding a specified scale in terms of transport quantity were also obligated to take such energy saving measures as part of the modal shift.

In October, 2006, the Maritime Bureau established the "Study Meeting for Promoting a Modal Shift to Marine Transport", comprising members of shipping service operators with RORO vessels and container vessels, further striving to promote a greater modal shift to marine transport.

4. Efforts to Promote the Construction of New Coastal Vessels to Replace Old Ones

Coastal shipping is one of the trunk distribution industries in Japan which supports its economy and national life, accounting for about 40% of domestic distribution, and in particular, about 80% of transport of fundamental goods for industry (steel, petroleum, cement and so forth). In recent years, the tendency toward an "aging population combined with diminishing birthrate" has advanced rapidly in the coastal shipping sector, which supports the above-mentioned activities. Given the importance of revitalizing coastal shipping in order to realize the construction of new coastal vessels replacing old ones on a stable and adequate scale, an "Action Plan for Promoting the Construction of New Coastal Vessels to Substitute Old Ones" was formulated in March, 2006 to solve those problems. Thanks to efforts by the parties concerned, including the Maritime Bureau, the number of vessels for which applications for construction were filed in fiscal 2006 reached 126 (up about 60% from the preceding fiscal year), showing a distinctly favorable recovery trend. Efforts will continue to be made in accordance with this Action Plan.

Part II Current State of Maritime Affairs and the Tasks Involved

Chapter 1: Area of Maritime Transport

1. Oceangoing Shipping

The volume of global cargo movement on the ocean in 2006, in terms of tonnage, was 6.98 billion tons (an increase of 4.8% from the previous year) and, in terms of ton-miles, was 30,668 billion ton-miles (an increase of 5.5%), recording an all-time high in both tonnage and ton-miles in succession from the previous year.

With respect to the breakdown of the volume of world cargo movement on the ocean, petroleum (crude oil and petroleum products) accounted for 33%, which was the highest percentage among all items, followed by coal, iron ore and grain, for which the percentage was collectively 24.7 %.

For 2006 the annual volume of ocean cargo movement again established a historical record high on account of continued favorable business activities in U.S.

The volume of east bound ocean cargo movement (Asia → North America) increased to 13,480 thousand TEUs (an increase of 10% from the previous year). By country, the largest volume in terms of east bound cargo movement was shipped from China (an increase of 5%), accounting for about 70% of the total volume.

Table 1:
Volume of the world ocean cargo movement by major commodities

(1) Tonnage

(Unit: one million Tons)

	Petroleum			Dry Cargo					Grand Total
	Crude oil	Petroleum products	Total	Iron ore	Coal	Grain	Other	Total	
1999	1,550	415	1,965	411	482	220	2,218	3,331	5,296
Rate of increase	1.0	3.2	1.4	–1.4	1.9	12.2	3.2	3.0	2.4
2000	1,608	419	2,027	454	523	230	2,361	3,568	5,595
Rate of increase	3.7	1.0	3.2	10.5	8.5	4.5	6.4	7.1	5.6
2001	1,592	425	2,017	452	565	234	2,385	3,636	5,653
Rate of increase	–1.0	1.4	–0.5	–0.4	8.0	1.7	1.0	1.9	1.0
2002	1,588	414	2,002	484	570	245	2,519	3,818	5,820
Rate of increase	–0.3	–2.6	–0.7	7.1	0.9	4.7	5.6	5.0	3.0
2003	1,673	440	2,113	524	619	240	2,637	4,020	6,133
Rate of increase	5.4	6.3	5.5	8.3	8.6	–2.0	4.7	5.3	5.4
2004	1,754	461	2,215	589	664	236	2,789	4,278	6,493
Rate of increase	4.8	4.8	4.8	12.4	7.3	–1.7	5.8	6.4	5.9
2005	1,784	495	2,279	652	710	251	2,770	4,383	6,662
Rate of increase	1.7	7.4	2.9	10.7	6.9	6.4	–0.7	2.5	2.6
2006	1,814	517	2,331	711	755	262	2,924	4,652	6,982
Rate of increase	1.7	4.4	2.3	9.0	6.3	4.4	5.6	6.1	4.8

(2) Ton-miles

(Unit: one billion ton-miles)

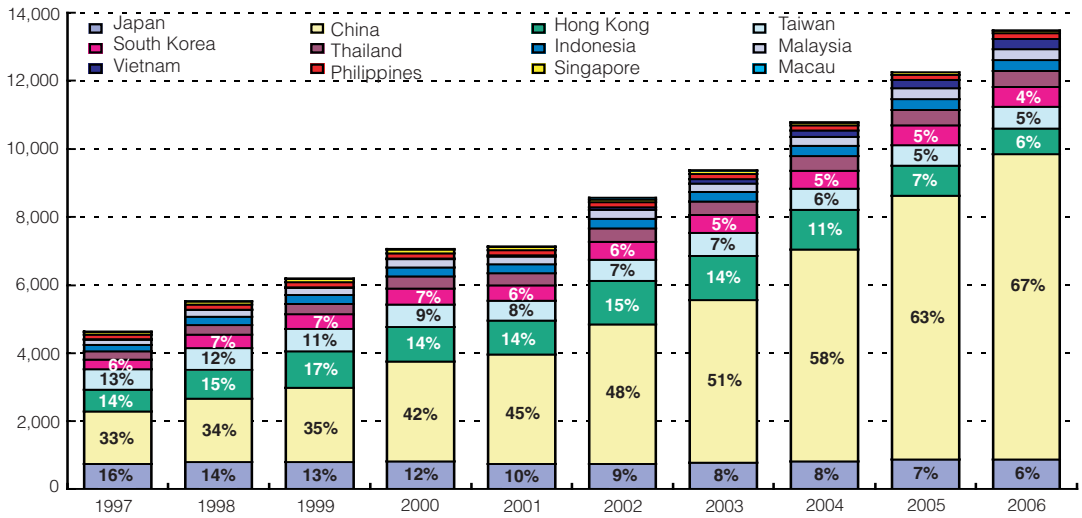
	Petroleum			Dry Cargo					Grand Total
	Crude oil	Petroleum products	Total	Iron ore	Coal	Grain	Other	Total	
1999	7,980	2,055	10,035	2,317	2,363	1,186	6,632	12,498	22,533
Rate of increase	1.2	4.3	1.8	0.5	–2.3	11.5	4.1	2.8	2.3
2000	8,180	2,085	10,265	2,545	2,509	1,244	7,130	13,428	23,693
Rate of increase	2.5	1.5	2.3	9.8	6.2	4.9	7.5	7.4	5.1
2001	8,074	2,105	10,179	2,575	2,552	1,322	7,263	13,712	23,891
Rate of increase	–1.3	1.0	–0.8	1.2	1.7	6.3	1.9	2.1	0.8
2002	7,848	2,050	9,898	2,731	2,549	1,241	7,753	14,274	24,172
Rate of increase	–2.8	–2.6	–2.8	6.1	–0.1	–6.1	6.7	4.1	1.2
2003	8,390	2,190	10,580	3,035	2,810	1,273	8,156	15,274	25,854
Rate of increase	6.9	6.8	6.9	11.1	10.2	2.6	5.2	7.0	7.0
2004	8,795	2,305	11,100	3,444	2,960	1,350	8,720	16,474	27,574
Rate of increase	4.8	5.3	4.9	13.5	5.3	6.0	6.9	7.9	6.7
2005	9,239	2,510	11,749	3,711	3,124	1,385	9,125	17,345	29,094
Rate of increase	5.0	8.9	5.8	7.8	5.5	2.6	4.6	5.3	5.5
2006	9,516	2,635	12,151	4,120	3,372	1,436	9,608	18,536	30,686
Rate of increase	3.0	5.0	3.4	11.0	7.9	3.7	5.3	6.9	5.5

Source: Fearnley's "REVIEW 2006"
Note: Values for 2006 are estimates.

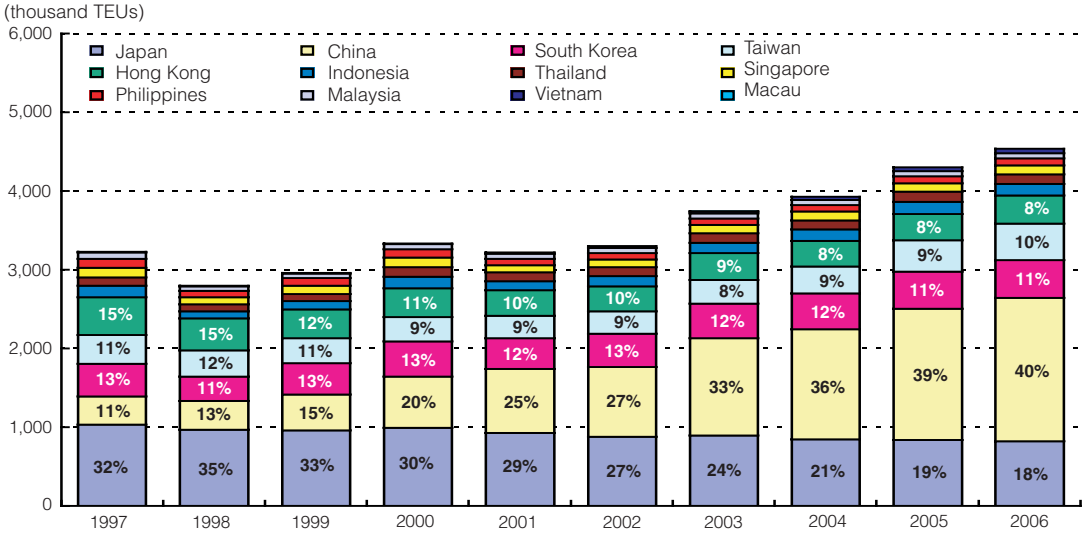
Also for the west bound cargo movement (North America → Asia), the volume increased to 4,540 thousand TEUs (an increase of 5% from the previous year). The volume bound for China was still continuing to increase (an increase of 10%), marking an outstanding movement in terms of east bound cargo.

Figure 1: Transition in container cargo movement on the North American route by country

East bound (Asia→North America)



West bound (North America→Asia)



Source: Compiled by the Japan Maritime Center, based on the data of PIERS

Table 2:
Volume and value of the maritime trade of Japan by commodities

(Unit: 1,000 tons; 100 million yen)

Item \ Year		2005		2006		Rate of increase from the preceding year (%) (in terms of volume)
		Volume	Value	Volume	Value	
Total of import and export		949,993	870,961	958,932	1,025,878	0.9%
Export	Total	134,365	456,066	144,367	526,206	7.4%
	Steel	32,260	30,182	34,837	34,658	8.0%
	Cement	10,197	269	10,121	313	–0.7%
	Machinery	13,908	166,092	15,024	181,558	8.0%
	Passenger car	6,398	87,717	7,533	109,584	17.7%
	Electric goods	1,615	48,292	1,633	53,192	1.1%
	Fertilizer	898	120	869	121	–3.2%
	Others	69,089	123,393	74,350	146,780	7.6%
Import	Total	815,628	414,895	814,565	499,671	–0.1%
	Total of dry cargo	505,609	285,717	501,706	330,283	–0.8%
	Iron ore	132,285	6,157	134,287	8,339	1.5%
	Coal	180,808	15,128	177,209	16,119	–2.0%
	Phosphate rock	774	98	784	117	1.2%
	Salt	8,298	354	8,895	413	7.2%
	Copper ore	4,320	5,321	4,633	10,667	7.3%
	Nickel ore	4,757	380	4,214	402	–11.4%
	Bauxite	1,814	78	1,688	78	–6.9%
	Timber	12,839	5,205	12,218	5,802	–4.8%
	Pulp	2,360	1,415	2,365	1,671	0.2%
	Chip	14,112	2,264	13,776	2,454	–2.4%
	Wheat	5,472	1,356	5,337	1,489	–2.5%
	Rice	787	354	607	352	–22.9%
	Barley/Naked barley	1,430	298	1,383	303	–3.3%
	Corn	16,656	2,850	16,883	3,007	1.4%
	Soy beans	4,181	1,569	4,042	1,491	–3.3%
	Others	114,717	242,889	113,385	277,579	–1.2%
	Total of liquid cargo	310,019	129,178	312,860	169,389	0.9%
	Crude oil	210,813	88,253	209,141	115,351	–0.8%
	LNG	58,014	19,853	62,189	26,595	7.2%
	LPG	13,755	6,860	14,512	9,406	5.5%
	Fuel oil	3,892	1,515	3,934	1,940	1.1%
	Others	23,545	12,697	23,084	16,097	–2.0%

○ Prepared by the Maritime Bureau of the Ministry of Land, Infrastructure and Transport, based on the foreign trade statistics of the Ministry of Finance

Table 3:
Volume transported and freight earned by Japanese merchant fleet

(Unit: 1,000 tons; 100 million yen; %)

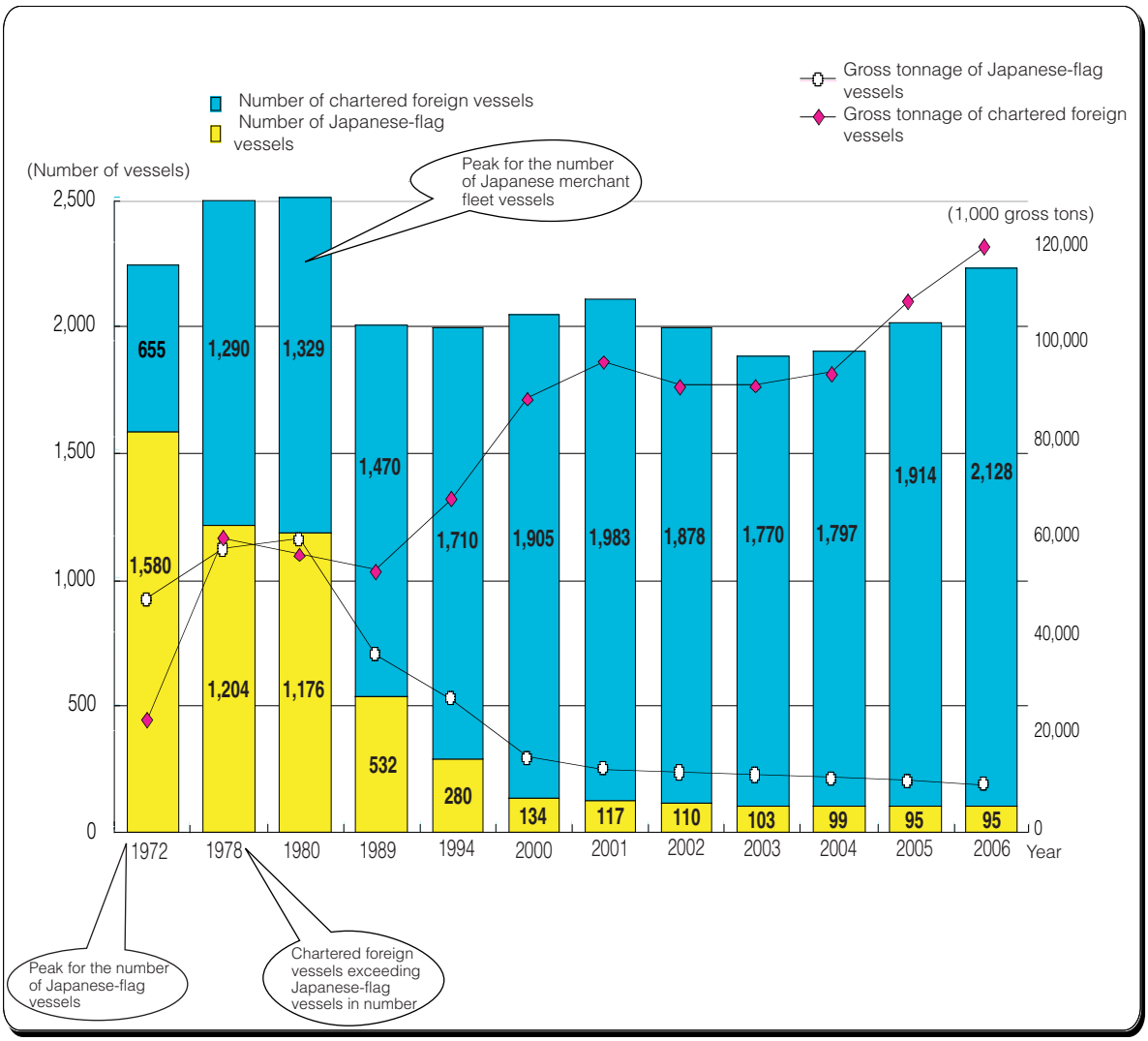
Category		2005			2006			Rate of increase from the preceding year		
		Japanese-flag ship	Chartered foreign ships	Total	Japanese-flag ship	Chartered foreign ships	Total	Japanese-flag ship	Chartered foreign ships	Total
Export	Liners	499	14,894	15,393	513	14,318	14,831	2.7	–3.9	–3.7
		43	1,370	1,413	54	1,549	1,603	25.4	13.0	13.4
	(Container ships of the above)	162	8,498	8,660	152	8,473	8,625	–6.4	–0.3	–0.4
		29	1,121	1,150	39	1,309	1,348	35.2	16.7	17.2
	Trampers	632	21,914	22,547	1,153	30,603	31,756	82.3	39.6	40.8
		158	3,154	3,312	167	4,149	4,316	5.8	31.6	30.3
	Tankers	671	6,693	7,364	470	5,545	6,015	–29.9	–17.1	–18.3
		21	208	229	22	185	207	2.7	–10.9	–9.6
	Total	1,803	43,500	45,303	2,136	50,466	52,601	18.5	16.0	16.1
		222	4,732	4,954	242	5,883	6,125	8.9	24.3	23.6
Import	Liners	1,325	14,934	16,259	1,081	17,217	18,298	–18.4	15.3	12.5
		62	976	1,038	50	1,109	1,159	–19.7	13.6	11.6
	(Container ships of the above)	282	12,778	13,060	275	14,736	15,011	–2.5	15.3	14.9
		26	875	901	25	962	987	–2.0	9.9	9.5
	Trampers	20,786	318,913	339,699	17,859	307,288	325,147	–14.1	–3.6	–4.3
		179	4,271	4,449	148	4,274	4,422	–17.2	0.1	–0.6
	Tankers	31,352	142,395	173,747	25,988	124,635	150,623	–17.1	–12.5	–13.3
		514	1,825	2,339	436	1,924	2,360	–15.2	5.4	0.9
	Total	53,463	476,242	529,705	44,928	449,140	494,068	–16.0	–5.7	–6.7
		755	7,071	7,826	635	7,307	7,942	–15.9	3.3	1.5
Offshore trade	Liners	863	55,019	55,881	1,278	78,670	79,948	48.2	43.0	43.1
		97	5,731	5,828	156	7,478	7,634	60.7	30.5	31.0
	(Container ships of the above)	863	54,834	55,697	1,278	78,411	79,689	48.2	43.0	43.1
		97	5,710	5,807	156	7,411	7,567	60.7	29.8	30.3
	Trampers	1,858	92,802	94,660	5,087	103,020	108,107	173.7	11.0	14.2
		40	2,304	2,344	86	2,781	2,867	113.9	20.7	22.3
	Tankers	3,096	50,462	53,558	2,975	53,742	56,717	–3.9	6.5	5.9
		41	1,111	1,151	47	1,358	1,405	15.2	22.3	22.0
	Total	5,817	198,282	204,100	9,341	235,433	244,774	60.6	18.7	19.9
		178	9,145	9,323	289	11,617	11,906	62.3	27.0	27.7
Total	Liners	2,687	84,846	87,533	2,873	110,205	113,078	6.9	29.9	29.2
		202	8,077	8,280	260	10,136	10,396	28.5	25.5	25.6
	(Container ships of the above)	1,307	76,110	77,417	1,706	101,620	103,326	30.5	33.5	33.5
		151	7,707	7,858	219	9,724	9,943	44.6	26.2	26.5
	Trampers	23,276	433,629	456,906	24,099	440,911	465,010	3.5	1.7	1.8
		377	9,728	10,105	401	11,203	11,604	6.5	15.2	14.8
	Tankers	35,120	199,549	234,669	29,434	183,922	213,356	–16.2	–7.8	–9.1
		576	3,143	3,719	505	3,467	3,972	–12.4	10.3	6.8
	Total	61,083	718,025	779,108	56,405	735,039	791,444	–7.7	2.4	1.6
		1,155	20,948	22,104	1,166	24,807	25,973	0.9	18.4	17.5

Source: Surveyed by the Maritime Bureau of the Ministry of Land, Infrastructure and Transport.
Note: 1. The numerical value on the upper and lower column of each item indicates the volume transported and freight earned respectively.
2. The number of container vessels is included in that of liners.
3. The numerical values for 2006 are provisional.

• Total available shipping space of the Japanese merchant fleet

The number and tonnage of ships belonging to the Japanese merchant fleet, almost all of which were so-called flag-convenience ships, by flag of registry were 1,563 vessels (70.3% of the total fleet) and 61,060 thousand gross tons (68.7%) for Panama-flags, and 109 vessels (5%) and 4,430 thousand gross tons(5%) for Liberia-flags.

Figure 2: Transition in composition of the Japanese merchant fleet



Source: Surveyed by the Maritime Bureau, the Ministry of Land, Infrastructure and Transport

• Financial situation of the three largest shipping companies

In terms of the business performance of the three largest shipping companies* (in terms of non-consolidated results) in fiscal 2006, revenue increased but profit decreased in comparison to the same period of the preceding year and 144.8 billion yen was posted in net profit for the fiscal year, due to 1) a steady cargo movement to U.S., Europe and China, 2) a favorable trend in the freight market of specialized carriers, and 3) the soaring price of fuel oil and so forth.

* NYK, MOL, K LINE

Table 4:
State of profit and loss of three largest shipping companies

(Unit: 100 million yen)

	Operating revenue	Rate of increase or decrease from the preceding fiscal year (%)	Operating expenses	Rate of increase or decrease from the preceding fiscal year (%)	Operating profit or loss	Rate of increase or decrease from the preceding fiscal year (%)	Ordinary profit or loss	Rate of increase or decrease from the preceding fiscal year (%)	Net profit after tax for the term	Rate of increase or decrease from the preceding fiscal year (%)
Fiscal 2005	27,985	14.6	25,412	20.2	2,573	–21.8	2,717	–19.9	1,709	–4.5
Fiscal 2006	31,714	13.3	29,852	17.5	1,862	–27.6	2,133	–21.5	1,448	–15.3

○ Prepared by the Maritime Bureau, based on the financial data of each company
(Note) Total figures may not tally with the totals of each figure due to rounding.

• Current standing of oceangoing cruising

The cruising population in Japan accounts for only about 1% of the world total of about 16 million. In particular, when compared with the U.S., an advanced country in cruising, the population remained at an extremely low level. The global cruising population, meanwhile, has almost more than doubled in number over the past decade.

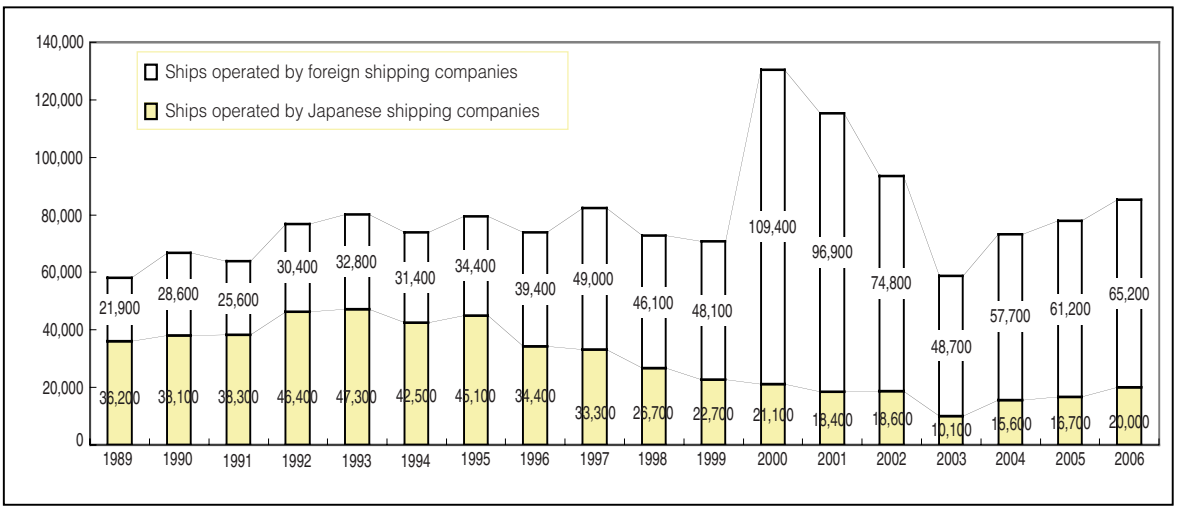
Table 5:
Transition in the population of passengers on global cruise ships

(Unit: thousand persons)

Name of Country (or area)	1990	1995	2000	2001	2002	2003	2004	2005
U.S.	3,500	4,600	6,900	6,900	8,650	9,000	9,500	11,200
Canada	150	250	300	300	300	300	300	300
U.K.	180	400	800	776	823	960	1,027	1,069
Germany	190	309	283	392	428	429	583	639
Italy	–	250	250	250	250	250	353	514
France	75	200	223	225	225	250	250	233
Other countries in Europe	180	250	250	250	250	250	250	250
Australia	100	150	200	200	200	250	500	500
Cyprus	–	75	75	75	75	75	75	75
Asia (except Japan)	75	450	800	849	800	600	600	600
Japan	175	225	216	200	169	140	160	156
Total	4,625	7,239	10,297	10,417	12,170	12,504	13,598	15,536

(Note) 1. Quoted from Douglas Ward's "Ocean Cruising & Cruise Ships, 2007"
2. Figures for Japan are surveyed by the Maritime Bureau, the Ministry of Land, Infrastructure and Transport.

Figure 3: Transition in the number of Japanese passengers on oceangoing cruise ships



(Source) Surveyed by the Maritime Bureau, Ministry of Land, Infrastructure and Transport.

• World Trade Organization (WTO)

With respect to the maritime transportation services sector, agreement on liberalization has not been reached, even with past negotiations on such occasions as the Uruguay Round, and the principal provisions of the WTO's General Agreement on Trade in Services (GATS), including Most-Favored Nation Treatment, do not currently apply to this sector.

Japan, who sets the "principle of free circulation of shipping" as the foundation of its policy on international shipping, gathering members highly interested in maritime transport services to target agreement in this round, held and presided over the Maritime Friends Meeting (14 Maritime Friends countries (regions): namely Australia, Canada, China, the European Communities and its Member States, Hong Kong china, Iceland, Japan, Republic of Korea, Mexico, New Zealand, Norway, Panama, Switzerland and the Separate Customs Territory of Taiwan, Penghu, Kinmen, Matsu), among which lively discussion ensued.

In the 6th ministerial conference held in Hong Kong in December, 2005, a declaration aiming to complete negotiations by the end of 2006 was adopted. Since then, multilateral negotiations have been conducted in the service area in addition to bilateral consultation based on the request-offer formula.

Because no compromise could be found, however, in the areas of agriculture and NAMA, negotiations were suspended in July 2006. Coordination has since been carried out to resume negotiations, which have recommenced since January, 2007 to target agreement at the end of the year.

2. Domestic Passenger Ships

As of April 1, 2007, 964 business operators (a decrease of 21 operators from the preceding year) managed 1,659 routes (a decrease of 37 routes from the preceding year), with 2,385 vessels (a decrease of 10 vessels from the preceding year) commissioned in service.

With respect to the actual transportation records for fiscal 2005, the number of transported passengers was 103,200 thousand (up 2.3% from the preceding fiscal year), and the transported passenger-kilometer total was 4,025 million (up 4.0% from the preceding fiscal year).

On the other hand, with regard to the actual transportation records for automobiles, the number of units was 5,367 thousand for trucks (up 2.7% from the preceding fiscal year) and 11,190 thousand for passenger cars / other vehicles transported (up 7.4% from the preceding

Table 6:
Approximate numbers for routes and services by type of service

Type of service	Fiscal Year	Number of business operators	Number of routes	Number of vessels
General passenger liner service	2003	457	620	1,321
	2004	454	626	1,327
	2005	461	641	1,307
	2006	456	637	1,332
	2007	444	609	1,298
Special passenger liner service	2003	10	14	14
	2004	10	13	15
	2005	9	12	12
	2006	9	12	12
	2007	8	11	11
Passenger tramper service	2003	484	949	1,065
	2004	489	977	1,052
	2005	497	997	1,085
	2006	520	1,047	1,101
	2007	512	1,039	1,076
Total	2003	951	1,583	2,400
	2004	953	1,616	2,394
	2005	967	1,650	2,404
	2006	985	1,696	2,445
	2007	964	1,659	2,385
(Total ferry routes of the above)	2003	163	208	387
	2004	161	207	392
	2005	163	202	384
	2006	162	203	388
	2007	158	187	366

Table 7:
Actual recorded number of passengers transported

(Unit: million passengers; million man / kilometer; %)

Type of service	Fiscal Year	Number of passengers transported		Man / kilometer transported	
			Rate of increase from the preceding year		Rate of increase from the preceding year
General passenger liner service	2001	99.6	9.5	3,836	–6.2
	2002	100.0	0.4	3,747	–2.3
	2003	97.3	–2.7	3,864	3.1
	2004	92.0	–5.4	3,708	–4.0
	2005	94.0	2.2	3,870	4.4
Special passenger liner service	2001	0.4	–3.1	2	–11.5
	2002	0.3	–25.0	3	25.0
	2003	0.3	–16.7	2	–46.7
	2004	0.2	–12.0	1	–18.8
	2005	0.2	–9.1	1	–53.8
Passenger tramper service	2001	10.8	–42.2	168	–20.3
	2002	8.5	–21.3	143	–14.9
	2003	9.7	14.1	158	10.5
	2004	8.7	–10.3	160	1.3
	2005	9.0	3.4	154	–3.8
Total	2001	110.8	0.6	4,006	–6.9
	2002	108.8	–1.8	3,893	–2.8
	2003	107.3	–1.4	4,024	3.4
	2004	100.9	–5.9	3,869	–3.8
	2005	103.2	2.3	4,025	4.0

(Note) Total figures may not tally with the totals of each figure due to rounding.

fiscal year), while in terms of vehicle-kilometers, 1,119 million for trucks (up 3.0% from the preceding fiscal year) and 809 million for passenger cars / other vehicles (up 4.9% from the preceding fiscal year).

• Public subsidy for the maintenance / improvement of shipping lines

Japan has more than 6,800 islands, including Honshu, Hokkaido, Shikoku, Kyushu and Okinawa's main island, more than 400 of which are inhabited.

Although remote island routes connecting islands to islands and islands to the mainland play an important role as a means of transporting inhabitants of remote islands and their daily commodities, the number of passengers continues to decline year after year, due to the rapid decrease in population in rural areas and so forth, intensifying severe conditions for the management of ship operators providing services to remote islands.

For this reason, efforts are being made to maintain / improve these shipping services by granting such ship operators subsidies to cover losses suffered from their management of the route operation, based on the Act for Improvement of Sea Routes at Remote Islands. During fiscal 2006, about 4,690 million yen was paid to 97 operators and 107 shipping services to cover such losses.

Moreover, from fiscal 2004 onward, in order to promote the installation of barrier-free facilities on boats in services for remote islands, where societies are more rapidly aging than on the mainland, it has been decided to subsidize 50% of the construction cost incurred for the installation of barrier-free facilities and in building ships for renewal, which will be in service on navigation routes designated as eligible for subsidies or the cost of reforming vessels to install barrier-free facilities on the same.

• Promotion of effort to install barrier-free facilities on passenger boats

It has been decided to obligate all ships to secure an effective width of 80 cm or more for the corridors, install hand-rails as well as elevators (for routes for boarding and leaving the ship ranging to other deck boards) and so forth along one route or more for boarding and leaving the ship to the barrier-free seats for passengers or space provided for wheelchairs, assuming that aged or physically disabled passengers are assisted by a helper or crew on the way. In addition, it has been decided to obligate all vessels to secure an effective width of 120 cm and more for corridors, install hand-rails, elevators (for inboard migration pathways ranging to other deck boards), space for the rotation of wheelchairs on the way and so forth along one route or more for moving inside ships from barrier-free seats for passengers or space for wheelchairs to inboard facilities for passengers (rest rooms, restaurants, commissary depots and promenade decks), based on the assumption of unaided movement for aged or physically handicapped passengers as a general rule.

While the target represents about 500 passenger boats (an estimation based on an annual average of 50 boats built), about 50% of the total of 1,000, to be barrier-free by 2010, only 108 passenger boats (11.5%) of 939 in total were actually barrier-free as of the end of March, 2007 on account of stagnant conditions in the construction of vessels for use, in turn resulting from the unfavorable performance of the passenger boat business in recent years, the increased cost burden based on the impact of a sharp rise in the price of crude oil or otherwise and so forth .

3. Coastal Shipping

Coastal shipping services accounted for 37.1% (in terms of ton-kilometers for the fiscal year 2005) of domestic cargo transport, transporting about 80% of steel, petroleum, cement and so forth, which are important basic industrial materials to support the national economy / national life of Japan.

Table 8:
Movements in cargo transport volume by transport facilities

Fiscal year	Tons of cargo transported (ten thousand tons)					Ton-kilometers transported (million ton-kilometers)					Average transported distance (kilometers)			
	Coastal shipping	Vehicles	Rail	Air	Total	Coastal shipping	Vehicles	Rail	Air	Total	Coastal shipping	Vehicles	Rail	Air
1970	37,665	462,607	25,036	12	525,319	151,243	135,916	63,031	74	350,264	402	29	252	617
	(7.17)	(88.06)	(4.77)	(0.00)	(100.00)	(43.18)	(38.80)	(18.00)	(0.02)	(100.00)				
1975	45,205	439,286	18,062	19	502,572	183,579	129,701	47,058	152	360,490	406	30	261	800
	(9.00)	(87.41)	(3.59)	(0.00)	(100.00)	(50.92)	(35.98)	(13.05)	(0.04)	(100.00)				
1980	50,026	531,795	16,282	33	598,136	222,173	178,901	37,428	290	438,792	444	34	230	879
	(8.36)	(88.91)	(2.72)	(0.01)	(100.00)	(50.63)	(40.77)	(8.53)	(0.07)	(100.00)				
1985	45,239	504,805	9,628	54	559,727	205,818	205,941	21,919	482	434,160	455	41	228	893
	(8.08)	(90.19)	(1.72)	(0.01)	(100.00)	(47.41)	(47.43)	(5.05)	(0.11)	(100.00)				
1990	57,520	611,357	8,662	87	677,626	244,546	274,244	27,196	799	546,785	425	45	314	918
	(8.49)	(90.22)	(1.28)	(0.01)	(100.00)	(44.72)	(50.16)	(4.97)	(0.15)	(100.00)				
1995	54,854	601,657	7,693	96	664,301	238,330	294,648	25,101	924	558,079	435	49	326	963
	(8.26)	(90.57)	(1.16)	(0.01)	(100.00)	(42.71)	(52.80)	(4.50)	(0.17)	(100.00)				
2001	52,007	557,823	5,867	102	615,798	244,451	313,072	22,193	994	580,710	470	56	378	975
	(8.45)	(90.59)	(0.95)	(0.02)	(100.00)	(42.10)	(53.91)	(3.82)	(0.17)	(100.00)				
2002	49,725	533,949	5,659	100	589,433	235,582	312,028	22,131	991	570,732	474	58	391	991
	(8.44)	(90.59)	(0.96)	(0.02)	(100.00)	(41.28)	(54.67)	(3.88)	(0.17)	(100.00)				
2003	44,554	523,407	5,360	103	573,426	218,190	321,862	22,794	1,027	563,873	490	62	425	997
	(7.77)	(91.28)	(0.93)	(0.02)	(100.00)	(38.69)	(57.08)	(4.04)	(0.18)	(100.00)				
2004	44,025	507,588	5,219	107	556,939	218,833	327,632	22,449	1,058	569,972	497	65	430	989
	(7.91)	(91.14)	(0.94)	(0.02)	(100.00)	(38.39)	(57.48)	(3.94)	(0.19)	(100.00)				
2005	42,615	496,588	5,247	108	544,558	211,576	334,979	22,813	1,075	570,443	497	68	435	996
	(7.83)	(91.19)	(0.96)	(0.02)	(100.00)	(37.09)	(58.72)	(4.00)	(0.19)	(100.00)				

○ Prepared, based on the "Land Transport Statistics Handbook" issued by the Ministry of Land, Infrastructure and Transport.

(Note) 1. The share (%) of each transport facility is indicated in parentheses.
2. Excess baggage and mail are included in the air transport volume indicated.
3. The figures for vehicles include those for mini-cars beginning in fiscal 1990.
4. Fractions of 0.5 and over are counted as one unit, and smaller figures are disregarded. For this reason, there may be cases where sub-totals do not add up to the grand total.

As of April 1, 2006, the numbers of registered business operators and reported operators were 3,183 and 1,465, respectively, of which medium and small enterprises (those with capital of 300 million yen or less or 300 employees or less) accounted for 99.6%.

The volume of cargo transported via coastal shipping in fiscal 2005 decreased by 3.3% from the preceding fiscal year in terms of ton-kilometers. Among major cargo commodities (in terms of tons), petroleum products continued to decrease for the third successive year, declining by 1.3% from the preceding fiscal year because they were affected by the energy conversion policy for promoting energy saving, while cement increased by 1.8% from the preceding fiscal year due to an increase in the number of newly started housing construction projects.

Meanwhile, the shipping rates for coastal transport have been declining in recent years due to the stagnant domestic economic climate, excess shipping space supply and so forth, although they have shifted to an upward tendency for coastal cargo carriers since the second half of 2005.

Table 9:
Transition in the volume of cargo transported by coastal shipping

Fiscal year	Tons transported (thousand tons)			Ton-kilometers transported (hundred million ton-kilometers)		
		Comparison to 1970	Comparison to the preceding year		Comparison to 1970	Comparison to the preceding year
1970	376,647	100.0	–	1,512	100.0	–
1975	452,054	120.0	112.6	1,836	121.4	95.4
1980	500,258	132.8	97.2	2,222	147.0	98.4
1985	452,385	120.1	90.4	2,058	136.1	92.6
1990	575,199	152.7	127.1	2,445	161.7	118.8
1995	548,542	145.6	95.4	2,383	157.6	97.5
1997	541,437	143.8	98.7	2,370	156.7	99.5
1998	516,648	137.2	95.4	2,270	150.1	95.8
1999	522,602	138.8	101.2	2,294	151.7	101.1
2000	537,021	142.6	102.8	2,417	159.9	105.4
2001	520,067	138.1	96.8	2,445	161.7	101.2
2002	497,251	132.0	95.6	2,356	155.8	96.4
2003	445,544	118.3	89.6	2,182	144.3	92.6
2004	440,252	116.9	98.8	2,188	144.7	100.3
2005	426,145	113.1	96.8	2,116	139.9	96.7

○ Compiled from the "Yearly Statistical Report of Coastal Shipping Transport" issued by the Ministry of Land, Infrastructure and Transport and others.

(Note) (1) Since the survey method was changed in fiscal 1974, the actual recorded figures for fiscal 1970 were estimated using calculations striving for consistency with the survey method.

(2) The comparison to the preceding year for the years before 1997 is that to the preceding year shown

For coastal tankers, however, they still remain unchanged.

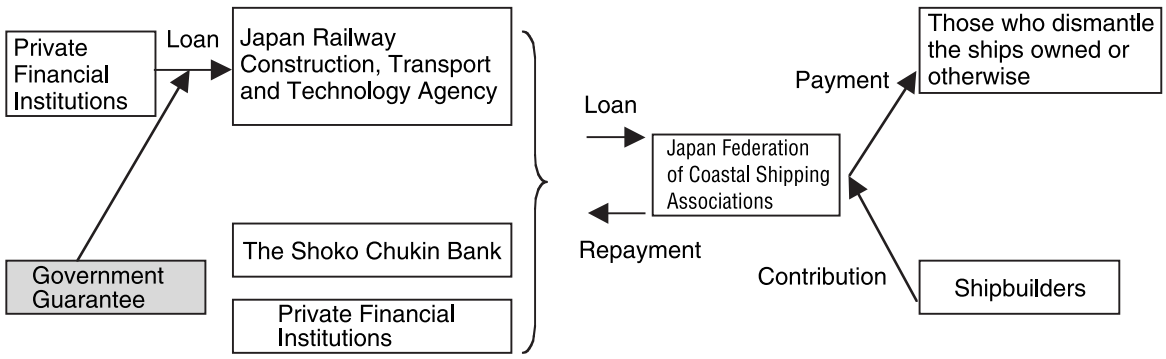
• Revision of the Coastal Shipping Business Law

In fiscal 2005, the Coastal Shipping Business Law was partially revised, with a view to enhancing coastal transportation security by strengthening the organizational control within shipping operators, in respect of points such as obligations for the business operator a) to prepare safety control rules and make related notifications, b) to nominate an officer responsible for safety control and make related notifications, c) as well as the government, to disclose information on safety, and d) to strive for improved transport safety (scheduled to be implemented in October, 2006).

• Smooth and steady implementation of provisional coastal shipping measures

After discontinuing the project involving adjusting the available tonnage by the scrap-and-

Figure 4: Outline of provisional measures for coastal shipping services



build formula, implemented since 1966 as a measure to counter excessive tonnage, a project of provisional measures for coastal shipping was introduced in May 1998 with a view to revitalizing the coastal shipping business.

With regard to the state of implementation, subsidies were granted for 1,630 vessels with eligible tonnage of 1,860 thousand tons, amounting to 122.7 billion yen, while 52.1 billion yen was contributed to the government from the owners of 668 vessels with eligible tonnage of 1,580 thousand tons (in terms of the approved amount as of March, 2007).

4. Port Transport

• Current state surrounding Japanese ports

The transition in cargo movement, in relation to the ocean transportation of containers among Asia / North America / Europe, was about 35.0 million TEUs for 2004, against a total of about 11.0 million TEUs for 1990. This picture reveals a noteworthy increase in the volume of containers transported involving Asia, as the increase in North America–Asia, Europe–Asia and within the Asia region represents about 11, 10 and 9 million TEUs respectively, while that in North America–Europe is by about 3 million TEUs.

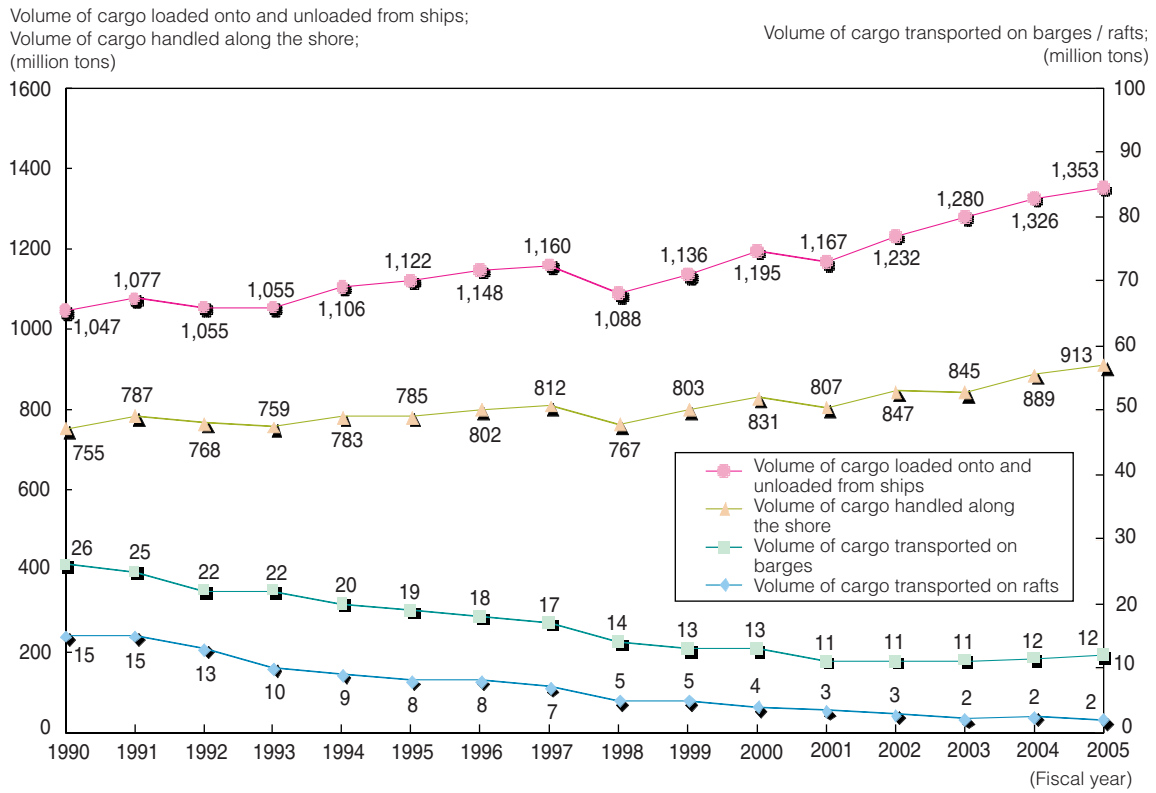
• Current state of the port transport business

The number of licenses, permits and operators of the port transport business at the 93 ports, designated by the Port Transport Business Law nationwide as of the end of March, 2006, is as follows. In addition, medium and small enterprises account for about 89 %, representing a very high percentage.

• Trends of port transport volume

Port transport volume (the volume of cargo loaded and unloaded onto and from ships) was

Figure 5: Transition in port transport volume



about 1,353 million tons, up about 1% from the preceding fiscal year, on a nationwide basis in fiscal 2005.

• Efforts for deregulation in the port transport

Deregulation was implemented in May, 2006, replacing the license system for port transport business in local ports other than the nine main ports (Ports of Chiba, Keihin, Shimizu, Nagoya, Yokkaichi, Osaka, Kobe, Kanmon and Hakata) with the permission system (abolition of supply and demand adjustment regulations) and the transport charges / fee approval system with the advance filing system and so on.

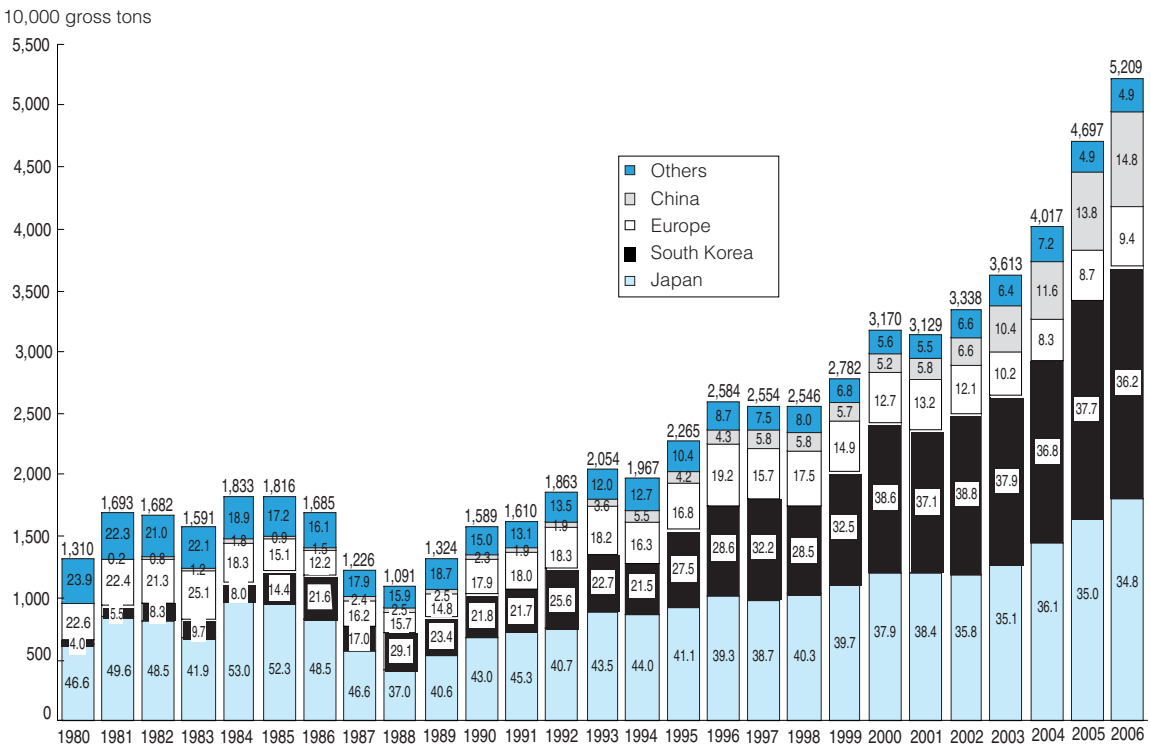
Chapter 2: Shipbuilding and Ship Machinery Industries

1. Shipbuilding Industry

In the world shipbuilding market, the demand for ships to be newly built, mainly tankers and bulk carriers, is following a steady upward trend with the increase in maritime transport, due to the recent expansion of imports by China of bulk cargo, including iron ore as well as crude oil and so on in the background. The total global tonnage of newly built vessels in 2006 was recorded at 52.09 million gross tons, once again reaching a historical record high, just like last year. Due to this high demand for shipbuilding and so forth, ship prices are rocketing and the peak is being maintained.

On the other hand, international competition is expected to further intensify in future, because China is capitalizing on its low labor cost to expand its shipbuilding capacity and make aggressive capital investment, currently accounting for about 10% of the tonnage of ships built in the world.

Figure 6: Transition in the tonnage of newly built ships in the world



(Note) 1. Compiled from the materials of Lloyd's (covering ships of 100 gross tons or more).
2. In terms of ships completed
3. Numbers indicated in the bar graph represent the composition ratio.

• Trends in the Japanese shipbuilding market

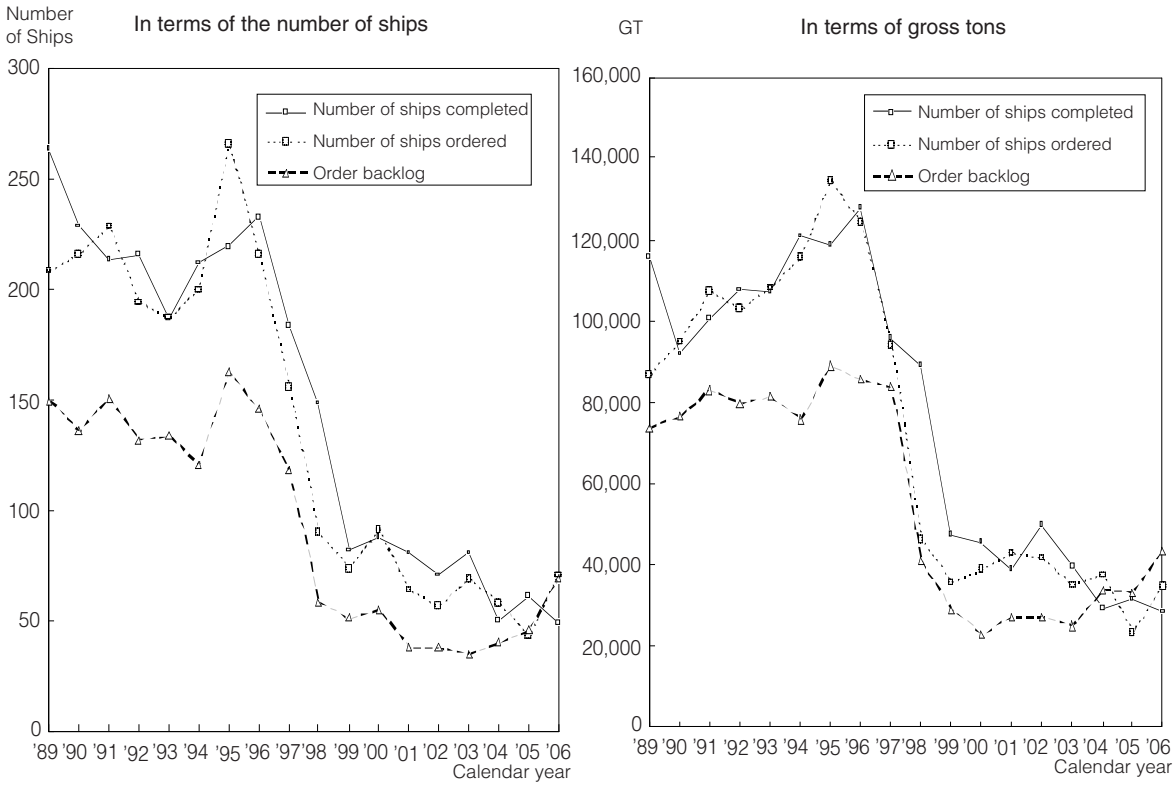
The Japanese shipbuilding industry, like that of Korea, accounts for just under 40% of the world production of newly built ships. The profitability of ships built before the middle of fiscal 2006 had been low, since related orders were accepted during a period of low prices, and because of the increased prices of materials such as steel products also affecting operations; however, since the level of unfilled orders remains at a high level due to increased global demand for new ships and the fact that orders for ships now under construction are those for which orders were accepted at higher ship prices, business conditions can be said to have changed for the better. .

The serious situation had continued for a long time for medium and small shipbuilders, who support coastal shipping and fishing boats, following stagnation in coastal vessel demand, caused by the persistently low level of freights / charter fees and so on, and the decreasing number of fishing boats, due to the international reinforcement of fishing regulations. However, the demand for shipbuilding is expected to climb in future, since the tonnage of newly built ships (in terms of the number of ships) in fiscal 2006 has increased in comparison to that of fiscal 2005 and the willingness of coastal shipping operators to construct new coastal vessels to replace old ones is recently recovering, following an increase in the volume of marine transport.

• Promotion of international cooperation

Since the international shipbuilding market, mainly for large-sized oceangoing ships, is the only global market, competition among business operators from each country is fierce and the policy of a country and order acceptance practice of shipbuilders and so on directly affects the competitive environment in the international shipbuilding market. However, since competitive conditions are not necessarily identical, due to the existence of government subsidies and so on in different countries, multilateral policy coordination is both necessary and vital for the sound

Figure 7: State of production of medium- and small-sized ships



(Note) 1. Source: "Survey of the State of Construction of Small-Sized Ships" issued by the Ministry of Land, Infrastructure and Transport.
2. Gross tons: Those of ships of 100 GT – less than 2,500 GT
3. Figures from 47 companies with actual record of construction
4. Order backlogs: As of the end of December

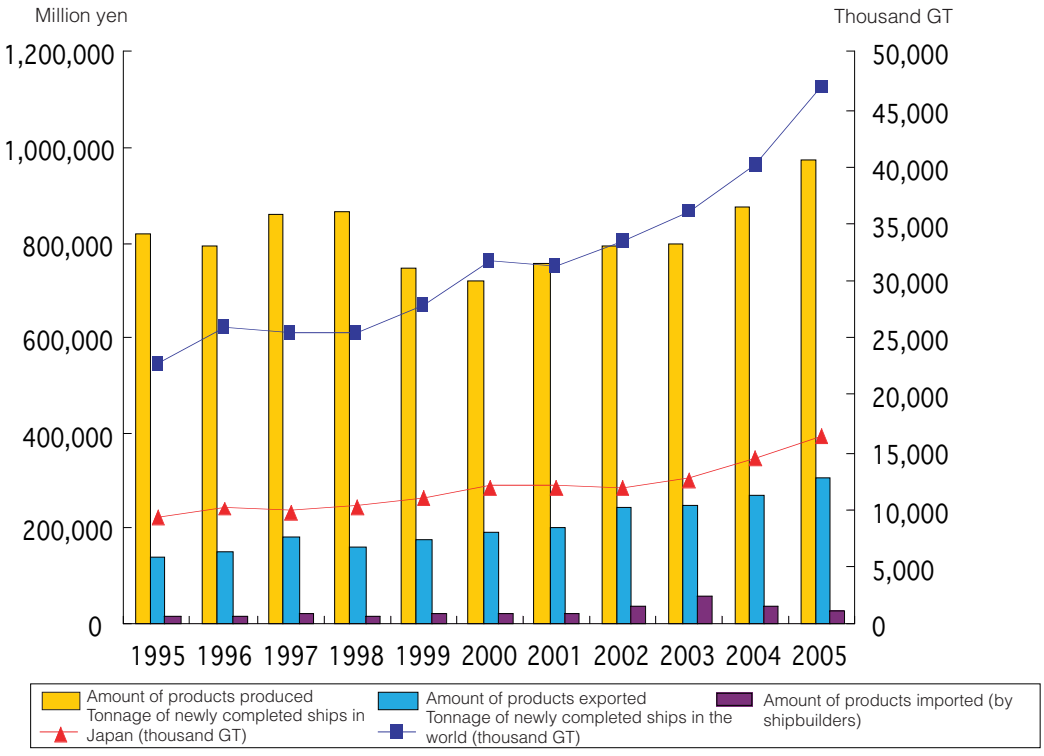
development of the shipbuilding industry. Since it is foreseen that, in future, the competitive environment in the international shipbuilding market will intensify due to expansion of facilities in the newly developing shipbuilding countries and so forth, the importance of international policy coordination is further increasing. Consequently, Japan has decided to strive for the development of a common market perception and coordination of measures through bilateral and multilateral discussions and so on at a government level.

2. Ship Machinery Industries

The value of products produced by the Japanese ship machinery industries in 2005 recorded a large increase, amounting to 975.7 billion yen (up 11.1% from the preceding year). With respect to diesel engines for ships, both the total value and engine output of diesel engines produced in each category increased; those of large-sized diesel engines (with engine outputs of 10,000 horsepower or more) to 114.5 billion yen (up 23.5% from the preceding year) and 7.11 million horsepower (up 20.5%), those of medium-sized diesel engines (between 1,000 and 10,000 horsepower) to 47.5 billion yen (up 7.5%) and 2.62 million horsepower (up 9.6%), and those of small-sized diesel engines (with engine outputs of less than 1,000 horsepower) to 37.3 billion yen (up 3.9%) and to 3.84 million horsepower (up 5.8%).

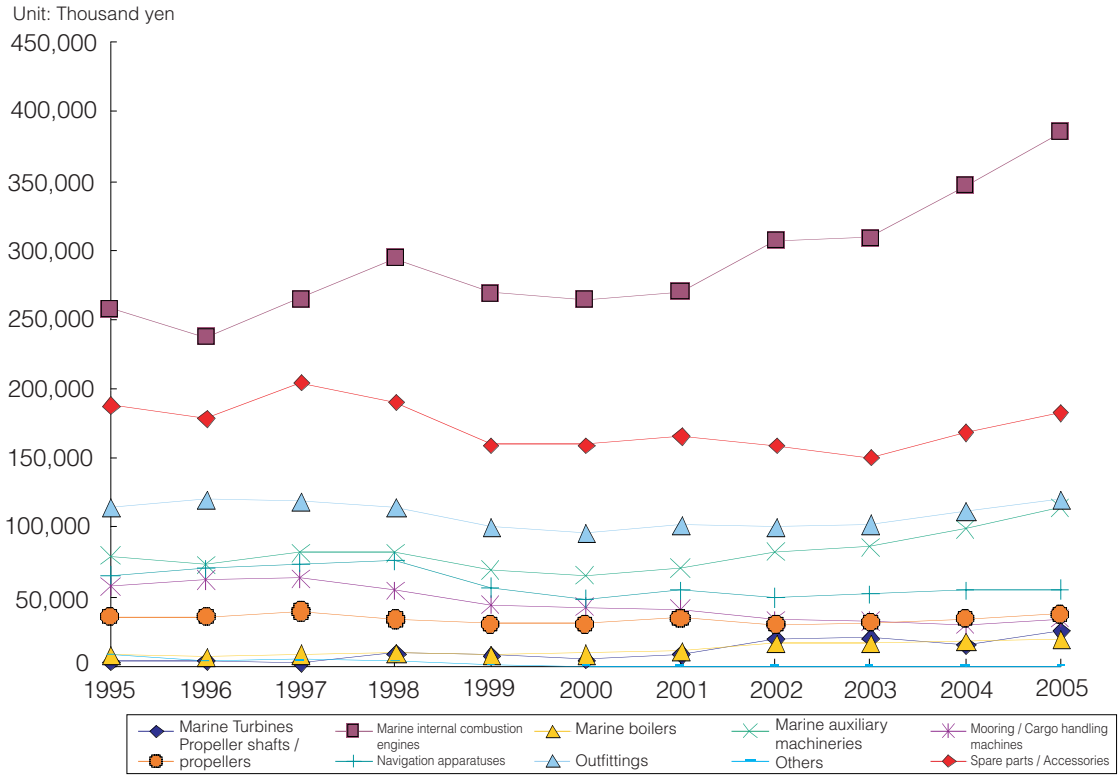
The export amount of ship machinery products in 2005 was 296.1 billion yen, up 9.3% from the preceding year, because export sales to Asia and the European region remained very strong. On the other hand, the import amount decreased to 28.1 billion yen, down 26.2% from the preceding year.

Figure 8: Transition in the amounts of products of Japanese ship machinery industries produced / exported and imported



Source: From: "Yearly Statistical Report of the Ship Machinery Industries"; "Statistics of Lloyd's" (for ships of 100 GT and larger).
Note: Imported amounts show the amount of products imported by shipbuilders.

Figure 9: Transition in the amount of ship machinery industry products produced by item



3. Development and Practical Application of New Technologies

At present, the targeted trajectory for Japan's marine industrial technology, which has faced up to the major challenge of strengthening its international competitiveness, is the reinforcement of explicit efforts to develop the technology for constructing a physical distribution system needed in the 21st century, dealing with the problems of environment / energy, contributing to the highly advanced use of the ocean, and opening up new undeveloped areas with creative technology, and so on, in which shipbuilding technology should play a pivotal role. To achieve such goals, the development / spread / practical use of ships and other items exploiting new technologies are underway and promoted.

• Development of Natural Gas Hydrate (NGH) Carrier

Since Natural Gas Hydrate (NGH = a solid material in which molecules of natural gas are surrounded by those of water in a basket-like state) transforms itself into the stable solid material at minus 20˚C, it can help limit the initial investment required in manufacturing plants and transporting ships and so forth, in comparison to liquefied natural gas (LNG), that transforms at minus 162˚C, meaning NGH can enable the development of many medium- and small-sized gas fields that are left undeveloped in Oceania and the South East Asian region. Consequently, NGH is considered to be a promising technology to cope with future expanded demand.

This development targets optimization of the system required for the marine transport of NGH and so forth, to complete the NGH transportation chain, consisting of "manufacture", "marine transport" and "regasification", and to contribute to securing the stable future supply of natural gas.

It is decided to conduct, in fiscal 2007, studies to develop cargo hold systems, cargo handling

systems and so forth.

• Development of technology to reduce the environmental burden originating from ships

The Annex VI to the International Convention for the Prevention of Pollution from Ships, which regulates the discharge of nitrogen oxides (NOx) and sulfur oxides (SOx) contained in gas emitted from ships, was implemented in May, 2005. Subsequently, the International Maritime Organization (IMO) commenced the study of secondary regulations to prevent air pollution; hence substantial regulatory reinforcement is anticipated.

The Maritime Bureau is working, as part of a 5-year plan, from fiscal 2007 onwards, on the research and development of a new technology to reduce the environmental burden as part of the "Comprehensive Measures to Reduce the Burden on the Environment Originating from Ships".

Specifically, the Bureau is conducting, while also giving consideration to energy saving, research and development into 'environmentally-friendly' diesel engines for ships. They include the development of technology for the after-treatment systems of emitted gas for ships, in order to significantly reduce the NOx contained in gas emissions from the same, a combustion analysis of existing ships, and the development of methods to improve the volume and timing of fuel injections and so on for reducing NOx and so forth.

• Research and study of a coordinated navigation support system

Since 2007, research and study has got underway to construct a coordinated navigation support system that enables ships to coordinate with others by conveying messages to them promptly and unfailingly, concerning their own steering intention.

• Practical use of megafloats

Research and development were conducted from fiscal 1995 to 2000 into megafloat, a product featuring the latest in cutting-edge technology from Japan, and including features such as earthquake-resistance and environmental-friendliness, to promote the smooth construction of social capital and capitalize on the use of ocean space.

With regard to megafloats, in fiscal 2001-2002, the Study Meeting for Researching the Use of Megafloat Airports and the Conference for the Assessment and Selection of Construction Methods for the Haneda Airport Re-Expansion Project concluded that a floating airport could be constructed. At the same time, the "Demonstration Test of the Function of the Megafloat Information Base" demonstrated that it could be used as an economical and highly reliable information base.

The Ministry of Land, Infrastructure and Transport promotes the practical use and spread of megafloats, for which various uses are conceived, such as port facilities, including a container terminal, energy base and leisure facilities, in addition to an airport and information backup base.

• Practical use of advanced ship safety control systems

From the viewpoint of enhanced national sentiment toward safety and the environment as well as reinforcement of Japan's industrial competitiveness, improvements of safety and efficiency in the distribution of goods are also strongly demanded in coastal shipping.

For this purpose, for four years from fiscal 2001, the Maritime Bureau had conducted research and development into an "Advanced Ship Safety Control System" to conduct a diagnosis into the state of marine engines, as well as prognosis of accidents and so on, with land-based support. Since fiscal 2005, it has been working on environmental improvements relating to the spread of this system.

Chapter 3: Section of Seafarers

1. Current State of Seafarers and the Tasks Involved

• Status of the number of seafarers, etc.

The number of seafarers (including reserve seafarers), having peaked at about 278 thousand in the year of 1974, has continued to decline ever since, in both categories of oceangoing ships and fishing boats. The factors behind this decline in both categories include the increasingly severe international competition in the area of ocean transport, and a falling number of fishing boats, due to more stringent international reinforcement of fishing regulations and so on.

With respect to the age-related composition of seafarers, the middle-aged and elder middle-aged (over 45 years old) accounted for 55% in 2006, as compared to 49.1% in 1995, showing a continued tendency toward aging.

2. Education / Employment of Seafarers

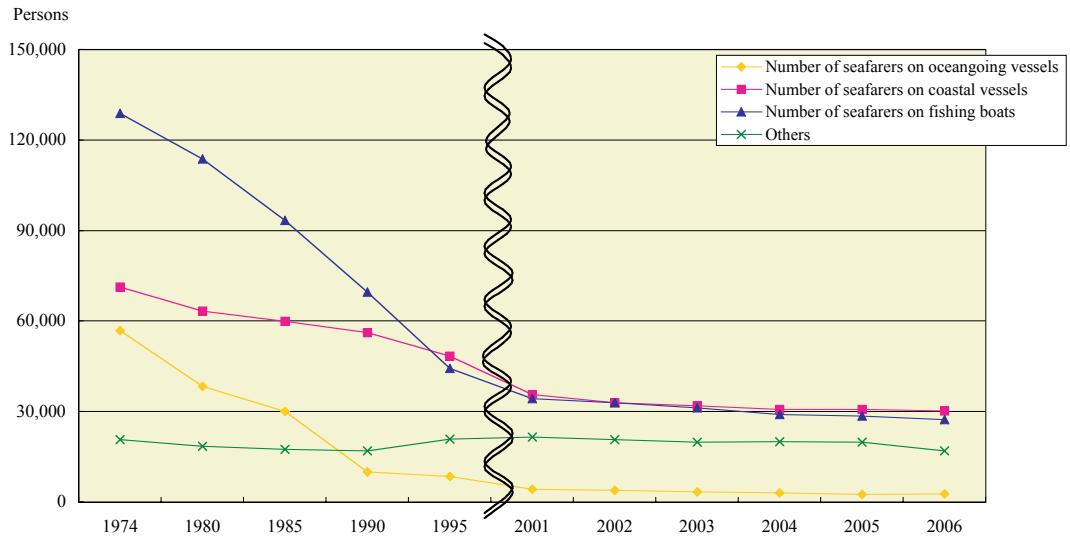
• Education / development of seafarers

The Marine Technical Education Agency was inaugurated on April 1, 2006, unifying the Marine Technical College and the School for Seafarers Training, because it was necessary to proceed with a review of the organization / operation of seafarer training institutes in order to respond more accurately to the needs of the maritime industry as a whole, while targeting more efficient and effective operation.

Table 10: Transition in the number of Japanese seafarers

(Unit: person)

	1974	1980	1985	1990	1995	2001	2002	2003	2004	2005	
Number of seafarers on oceangoing vessels	56,833	38,425	30,013	10,084	8,438	4,233	3,880	3,336	3,008	2,625	2,650
Number of seafarers on coastal vessels	71,269	63,208	59,834	56,100	48,333	35,606	32,860	31,886	30,708	30,762	30,277
Number of seafarers on fishing boats	128,831	113,630	93,278	69,486	44,342	34,267	32,897	31,185	29,099	28,444	27,347
Others	20,711	18,507	17,542	16,973	20,925	21,541	20,765	19,801	20,077	19,926	16,907
Total	277,644	233,770	200,667	152,643	122,038	97,648	92,404	88,211	84,896	83,762	79,187



○ Surveyed by the Maritime Bureau (Up to 2005, figures are based on Seafarer Statistics.)
○ The number of seafarers is the total of that of crew and reserve seafarers employed by Japanese ship-owners.
○ The number of others is that of seafarers manned on tugboats, barges and government and other public office ships.
○ The number of seafarers excludes that of foreign seafarers. (Numbers were modified accordingly, tracing them back into the past.)

• Measures for the employment of seafarers

Given the increasing need for the smooth transfer of the seafaring workforce among business operators, measures are taken to promote the same; reducing the mismatch between the needs of jobseekers and employers by ensuring the former have a workplace suited to their ability, where they can make the best use of their skills.

3. Improvement in the Working Environment

• Efforts to secure adequate labor conditions and manning standards

In order to secure adequate labor conditions and working environment for seafarers, taking into consideration the particularity of labor on the sea, the necessary standards for the labor conditions such as working hours, holidays and wages as well as the manning standards are established under the Seafarers Law and so forth, while a review is conducted to comply with the updated needs.

With a view to securing systems required for safe navigation, such as the number of rating forming part of a navigational watch, an obligation has been imposed as from April, 2006 to insist that at least one seafarer in possession of a certification of at least 6th-glade maritime officer (navigation), be posted as the officer on navigational watch on board sea-going ships, excluding those of less than 20 gross tons and fishing vessels, which usually navigate in inland water or in waters within, or closely adjacent to, sheltered waters or area where port regulations apply . In addition to this obligation, to promote the acquisition of the 6th-glade maritime officer certification, measures are taken to facilitate increased opportunities for acquisition, such as the unified implementation of training program and certification course, an expansion of the limit on the number of those taking such program courses, flexible implementation of extra tests and so on.

• Safety and health at work as well as disaster prevention activities for seafarers

In the 2007 implementation plan concerning disaster prevention for seafarers, it was decided to strive to promote this cause, prioritizing the detailed publicity of measures intended to reduce fatal disasters, such as those preventing “falls into the sea” and so on, prevention of frequent incidents of “falling” and “getting pinched”, prevention of disasters involving death and injury in handling an increase in the number of aged seafarers, improvement in guidance for the safety and health of young seafarers, prevention of lifestyle-related diseases and prevention of health hazards caused by asbestos.

4. International Cooperation in the Area of Seafarers

Japan is contributing significantly toward establishing policies and training / education systems for seafarers in developing countries as well as international progress in maritime education, making wide use of its knowledge on seafarer administration and training / education for international cooperation. In addition, Japan is promoting coordination with respect to policies for seafarers through the exchange of information and opinions with ASEAN countries.

Chapter 4: Assurance of Maritime Safety / Security and Conservation of the Environment

1. Measures to Secure Maritime Safety

• Securing safety for ships

The Maritime Quality Management System (QMS), a quality control system governing operational execution in individual departments for ship inspection, the registration and measurement of tonnage and that for executing the supervision of foreign ships was constructed, with system operation having commenced in December, 2005, and ISO9001 certification obtained in June, 2006.

• Securing safe navigation via a licensing system and so on

Ship-owners and so on must have ship officers on board, complying with shipping crew staffing standards based on the size of the ship, navigation area etc. As of the end of March, 2007, the total of those holding maritime technical officer's licenses numbered about 370,000.

The piloting system is a system that pinpoints spots where shipping traffic is congested, while dangerous paths of marine traffic are designated as pilotage zones (35 zones nationwide) and a pilot licensed by the Minister of Land, Infrastructure and Transport (There were 643 pilots nationwide as of the end of March, 2007. In fiscal 2006, 38 people obtained the pilot's license.) must be on board any ship traversing any of such pilotage zones and guide the ship safely and smoothly. By securing such a system to constantly provide the user with a piloting service, in which the efficiency / adequacy of the piloting operation is enhanced, the education for nurturing pilots is improved / reinforced and so forth, which is intended to further improve the safety of ship navigation.

2. Measures to Ensure Security

• Law for the Security of Ships in International Navigation and Port Facilities

The owners of ships engaged in international navigation are obligated to prepare ship security rules, containing the items necessary to ensure security, and obtain the relevant approval from the Minister of Land, Infrastructure and Transport. Once obtained, the ship security certificate issued by the Minister of Land, Infrastructure and Transport shall be kept within the ship. As of April 1, 2007, ship security certificates had been granted to 185 Japanese-flag vessels.

With regard to port facilities, the managers of international port facilities have been obligated to prepare pier security rules, containing the items needed to ensure security. As of July 1, 2006, pier security rules had been prepared for 127 ports nationwide.

3. Measures Toward Environmental Conservation

• Efforts aiming for international regulation with respect to the prevention of pollution from ships

In 1983, Japan joined the "International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto" (MARPOL Convention), and established a domestic law, "Law Relating to the Prevention of Marine Pollution and Maritime Disaster" to comply with the same.

• Efforts targeting international regulation with respect to the control of ballast water

As the "International Convention for the Control and Management of Ships' Ballast Water and Sediments, 2004" (Ballast Water Management Convention) was adopted at the IMO in February 2004, ballast water processing equipment has actively been developed in many countries worldwide, including Japan.

In addition, over three years from fiscal 2003, Japan supported the research and development of a new type of vessel (non-ballast water ship) capable of navigating safely without carrying ballast water as a drastic measure to combat environmental problems resulting from ballast water in transit. As the results, the inclined bottom hull form was developed. Moreover, as it has been confirmed that the non-ballast ship performs satisfactorily in comparison with a traditional ship, efforts to ensure the practical use and spread of the new hull form will henceforth be made.

• Efforts to solve the problem of oil pollution caused by ships

Due to the partial revision of the "Law on Liability for Oil Pollution Damage," an obligation was introduced to confirm the state of insurance coverage for incoming ships, whereby the certificate issued by the Ministry of Land, Infrastructure and Transport would have to be kept within the relevant ship in principle. Moreover, the state of insurance coverage would have to be reported in advance when entering a port. In addition, in cases where damage involving fuel oil pollution occurs, the ship-owner etc. will now be liable without fault in principle.

4. Countermeasures Against Asbestos

As the "Act on Asbestos Health Damage Relief" came into effect on March 27, 2006, the decision was made to work for a prompt and stable achievement of relief at the expense of business operators, the government and local authorities as a whole, to avoid any gap emerging among those who suffer from asbestos-related health hazards.

At present, in Japan, the new use of material containing asbestos on ships is totally prohibited. In addition, from the standpoint of preventing such health hazards caused by asbestos, efforts are made to provide seafarers working on board with thorough guidance in the shape of warnings and preventive measures when handling asbestos. At the same time, health consultations and so on are provided to those who were previously engaged in such work.

5. Port State Control (PSC)

In Japan, the PSC is implemented by 43 local offices and 125 PSC officers (as of fiscal 2007). In addition, Japan is implementing PSC within the framework under the Memorandum of Understanding on Port State Control in the Asia-Pacific Region (Tokyo MOU), in cooperation with neighboring countries, and is also actively contributing to its technical cooperation program.

Chapter 5: Measures to Increase the Utilization of Small Boats and Promote Maritime Activities

• Comprehensive measures for promoting the appropriate use of small boats

Since marine leisure has now become one of the leisure activities for citizens, and, in addition, increased opportunities to enjoy rental boats or the nationwide deployment of "sea stations" and so on, has increased the familiarity of all people with water, the demand for marine leisure is expected to further increase. In order to promote the further use of small boats, efforts must be made to further improve the usage environment and thus deal with related problems such as a shortage of mooring sites, spread of the recycling system of FRP boats and an increase in the insurance coverage ratio for pleasure boats. In view of the importance of efforts, which take the actual circumstances of each region into consideration for attaining such goals, each of the district transport bureaus shall reinforce the coordination, information exchange and so on among related organizations, including local authorities, by holding a "Boat Use Promotion Measures Liaison Conference", and, at the same time, create a "Pleasure Boat Consultation Desk" to widely provide general users with related information and so on. In addition, by obligating everyone on board a personal water craft to wear life jackets and so on, and thorough publicity / enlightenment on the licensing system for small boats, it is intended to promote the safe and sound use of small boats.