

Efforts and Prospects for Ensuring the Sea Lanes & Enhancing the Supply Chain from International Maritime Transport

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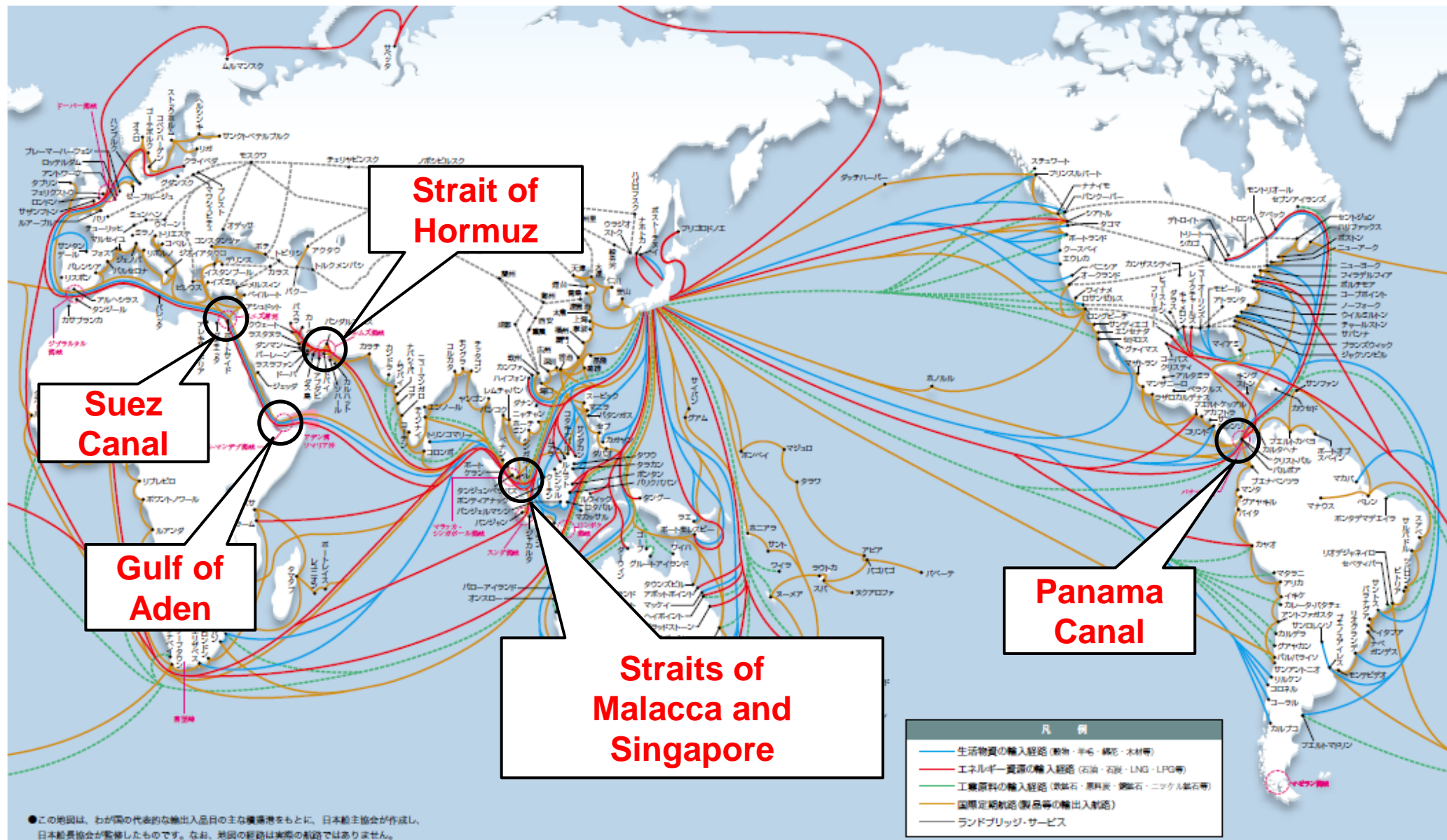
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- It is extremely important for the peace and security of countries around the world to strengthen maritime order and ensure freedom of navigation and safety.
(Ensuring sea lane safety)
- As risks to supply chains become more diverse, it is necessary to build supply chains that emphasize not only efficiency but also sustainability to respond quickly and flexibly to changes in the situation.
(Strengthening the supply chain)

Shipping routes and major choke points



Geopolitical risk

- Uncertainty in East Asia
- Serious situation in the Middle East, e.g. avoiding the Red Sea due to Houthi attacks
- Russia-Ukraine conflict and the resulting suspension of insurance
- Frequent piracy (Gulf of Aden, Africa, Straits of Malacca & Singapore, etc.)



Source: Marine Traffic

Climate change and natural disaster risks

- Panama Canal traffic restrictions due to record drought (2023-24). Unforeseen risks may arise due to climate change.
- In Japan, typhoons and large earthquakes have also caused damage to port facilities and affected ship operations.

Pandemic risk

- Logistics stagnation due to COVID-19, global impact derived from port and land transportation congestion.
- At the request of the Japanese government, Ocean Network Express (ONE) deployed temporary container ships to the North American route to secure the sailing schedule.
- Disruption of seafarer shifts due to immigration restrictions; Japan established special immigration/departure measures for them.

Cyber risk

- On July 4, 2023, a system failure occurred at the Port of Nagoya due to a cyber attack, resulting in the loss of port functions for 3 days.
- Maritime information platforms using blockchain are evolving, and more shipping companies and port companies are using these platforms.
- Ship operations rely on open networks.
- As autonomous ships become more widespread, it is necessary to pay attention to cyber risks.

Status of Japan's maritime industry

- Various industries are gathered in the maritime clusters in Japan.
- Both the shipping and shipbuilding industries in Japan are still world-class, but in recent years, China has also been on the rise.
- 90% of Japan's merchant fleet is foreign-flagged, and half are Panamanian-flagged. 4% of seafarers are Japanese.

Shipping		
	International	Domestic
Employees	61,000*	82,000*
Economic Products	3.2 trillion yen	0.8 trillion yen
Operating ships	2,283	7,329
Companies	191	3,767

*including seafarers

Around 74% are Japanese ships*

Around 73% of ships are procured domestically*

Stable supply

Shipbuilding & Marine machinery

	Shipbuilding	Marine machinery
Employees	64,000	47,000
Economic Products	2.9 trillion yen	1.0 trillion yen
Companies	900	871

*Ships delivered in 2023

Seafarers

Domestic shipping	Japanese	28,102
Intl. shipping	Japanese	2,062
	Foreigners	53,010

Financial companies

Ports / Harbors

Warehouse and logistics

Trading companies

Staffing companies

Insurance companies

Institutions

Brokers / Consultants

- A roadmap for the transformation of shipbuilding has been formulated with the goal of ensuring that Japan secures the top share for next-generation ships by 2030.
- IMO has agreed on the goal of “zero GHG emissions by around 2050.” By using next-generation fuels for ships, we will reduce CO2 emissions and strengthen the international competitiveness of the maritime industry.
- Develop and demonstrate zero-emission ships using the GI Fund (total: 35 billion yen), and use GX Economic Transition Bonds (total: 60 billion yen) to support facility deployments.
- Japan leads discussions towards GHG targets at IMO. We have proposed a feebate system combining regulations and incentives, under negotiation for adoption in 2025.

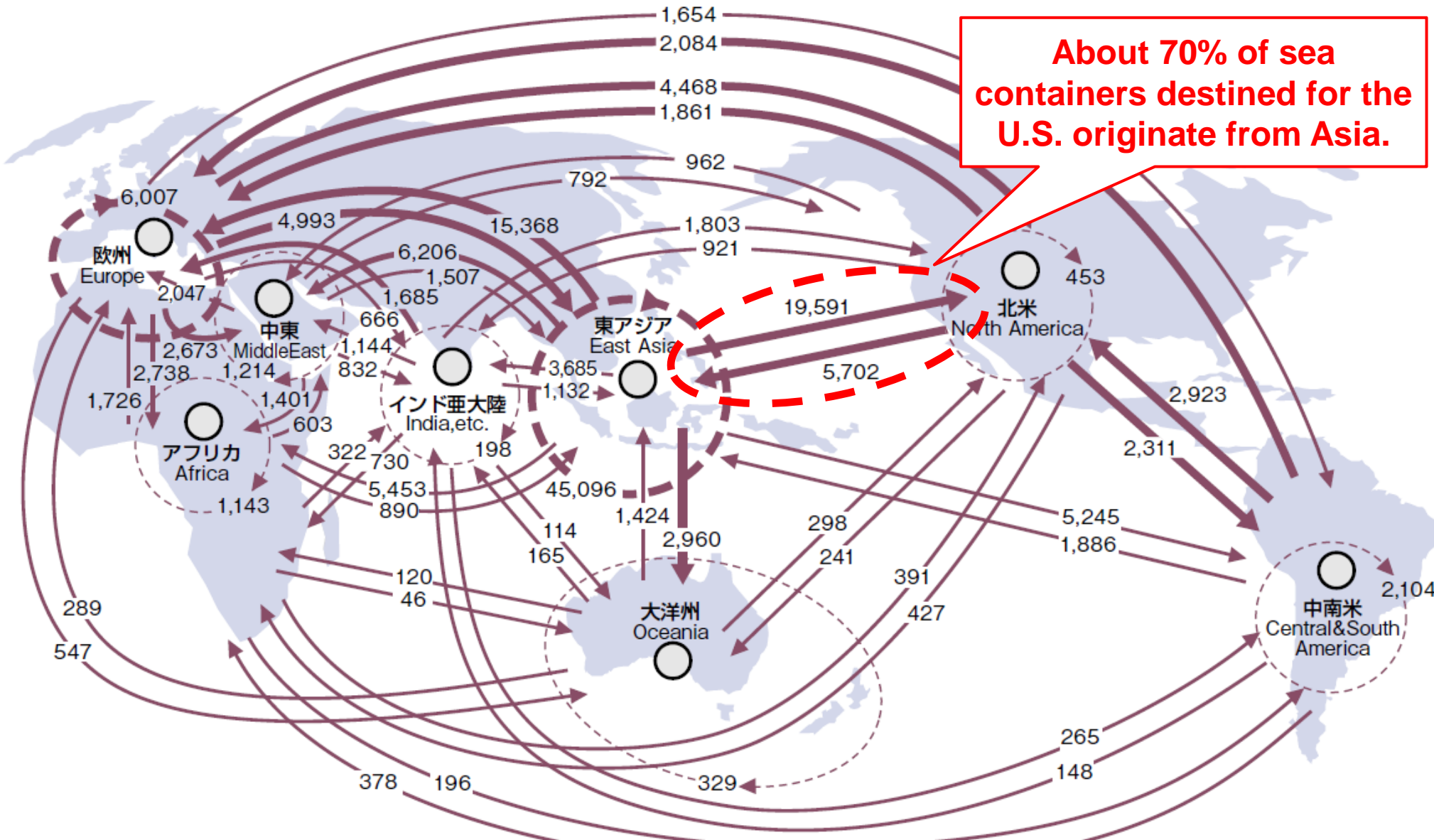
- Japan has taken support measures to encourage national ship owners and shipping companies to maintain stable ship ownership, contributing to ensuring economic security.
- For shipping companies, Japan has encouraged securing Japanese-flagged ships/seafarers when implementing the tonnage tax system, and the number of Japanese-flagged ships has increased from 92 in 2007 to 311 in 2023.
- For ship owners, Japan allows them to increase the special depreciation rate for property tax to 32% when owning a ship built by certified shipyards or machinery companies in Japan.

- The Asia-North America route is a major artery of the world economy, but the volume of cargo handled by neighboring countries such as China is increasing.
- International shipping, which relies on transshipment in third countries, not only lengthens lead times in emergencies, but also gets involved in geopolitical risks, destabilizing the supply chain.
- Although the international logistics system is built economically, we are promoting the hubs and functional enhancement of Japanese ports, taking account of economic security.
- We will collaborate with related countries, such as the U.S., including the Green Shipping Corridor based on QUAD.

Sea container movement around the world

World Container Estimated Movement in 2023 **Total:173,781,937 TEU**

Unit: 1,000 TEU



- Cooperation with the coast guard agencies of each country, support for capacity building, joint training, etc. We work closely together, especially in the Asia-Pacific region.
- At the last QUAD summit meeting, it was agreed to launch a first-ever Quad-at-Sea Ship Observer Mission in 2025.
- Anti-piracy activities are conducted with coast guard officers onboard Self Defense ships in Somalia/Aden.

Strengthening cooperation with foreign agencies

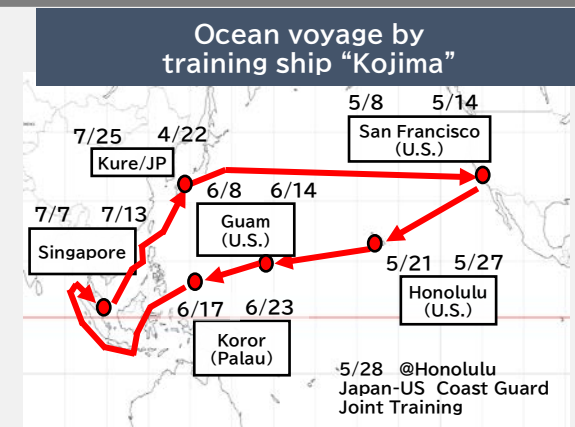


Source: Japan Coast Guard

Support capacity building for foreign agencies



Promoting strategic port calls by coast guard ships



Preparation for peacetime

- Fostering a common international awareness that strengthening the supply chain is a common interest
- Pay close attention to whether the infrastructure contains geopolitical risks
- Strengthen the entire international logistics network to respond to alternative situations

Securing transportation in emergencies

- Ensuring sea lane safety
- Securing transportation resources

- To have sufficient margin for supply/use of ships/ports. During normal times, maritime authorities and related companies share and cooperate with each other to check if there is a stable resource situation, considering market conditions.
- To secure not only national flagged ships and crews but also foreign ones that can be controlled, and to balance the combination.
- For economic security, it is necessary to secure resources for the shipbuilding industry, such as new fuels, repairs, etc.

- Japan is a major strait user country. Based on the Malacca Straits Council, established in 1969, we have supported and coordinated with coastal countries (Malaysia, Singapore, and Indonesia) through projects such as the deployment and maintenance of navigational aid facilities, technical cooperation, and hydrographic surveying.
- With the increase of strait user countries, the “Cooperation Mechanism” was established to realize cooperation between coastal countries and user countries in 2007.



Deployment and maintenance of navigational aid facilities



Capacity building in the coastal countries

- Considering the importance of the Japan-U.S. sea route, it is necessary for industry, government, and academia in both countries to deepen cooperation, policy dialogue, and maritime security cooperation, and to share and develop each other's policies, knowledge, and know-how.
- It is believed that increasing European countries' interest in Asia and encouraging their commitment will also contribute to economic security, so Japan and the United States should cooperate in this regard.
- Ultimately, sharing values that promote stability and prosperity will contribute to supply chains and sea lanes through the realization of a Free and Open Indo-Pacific (FOIP).