GLOBAL SHIPBUILDING - DEMAND AND SUPPLY BALANCE

[Presentation by the Community of European Shipyards’ Associations (CESA)]

This document by the Community of European Shipyards’ Associations will be presented at the second session of the Workshop with non-member economies on shipbuilding policies to be held on 18-19 December 2006.

Contact: Structural Policy Division, Mr. Danny Scorpecci. tel: +33 1 45 24 94 33; fax: +33 1 44 30 62 57; e- mail: danny.scorpecci@oecd.org
OECD Workshop

Global shipbuilding
– demand and supply balance

Thorkil Christensen
Paris, 18-19 December 2006

Global seaborne trade in billion tonne-miles

Source: Fearnleys - 2005-2007 estimated
The CESA new building forecast from 2005 indicate a relative high level of economic growth and growth of seaborne trade till 2020.

Current economic growth, however, outpace predictions.

Seaborne trade and fleet requirement has shown stronger growth than predicted by CESA.

Current expectations point lower economic growth rates in 2007+.

Growth rates in global economy and seaborne trade cannot be expected to continue at current record levels.
Tonnage completed 1975-2006 and CESA newbuilding requirement forecast to 2020 in mill. cgt

Actuals
CESA forecast

Tonnage completed 1975-2006 and CESA newbuilding requirement forecast to 2020 (+10% in 2006-10) in mill. cgt

Actuals
CESA forecast
Key points

- CESA has evaluated the possible future development in global shipbuilding capacity
- CESA apply relevant OECD-definitions and methodology
- CESA apply a dynamic approach where we assume that there is a link between the wellbeing of the new building market and the volume of investments in creating new shipbuilding facilities. This is supposed to serve to slow down future capacity expansions; especially after 2010

Shipbuilding output 2004-05 and capacity 2007-15 in mill. cgt

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>4.0</td>
<td>4.5</td>
<td>7.0</td>
<td>7.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Japan</td>
<td>8.0</td>
<td>8.5</td>
<td>9.0</td>
<td>9.0</td>
<td>8.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>8.3</td>
<td>10.1</td>
<td>14.0</td>
<td>15.0</td>
<td>13.0</td>
</tr>
<tr>
<td>China</td>
<td>2.9</td>
<td>4.3</td>
<td>6.5</td>
<td>10.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>1.5</td>
<td>2.0</td>
<td>2.3</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Total</td>
<td>24.7</td>
<td>29.4</td>
<td>38.8</td>
<td>44.3</td>
<td>44.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>16.2</td>
<td>15.3</td>
<td>18.0</td>
<td>16.5</td>
<td>15.9</td>
</tr>
<tr>
<td>Japan</td>
<td>32.4</td>
<td>28.9</td>
<td>23.2</td>
<td>20.3</td>
<td>17.9</td>
</tr>
<tr>
<td>South Korea</td>
<td>33.6</td>
<td>34.4</td>
<td>36.1</td>
<td>33.9</td>
<td>29.1</td>
</tr>
<tr>
<td>China</td>
<td>11.7</td>
<td>14.6</td>
<td>16.8</td>
<td>22.6</td>
<td>29.1</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>6.1</td>
<td>6.8</td>
<td>5.9</td>
<td>6.8</td>
<td>8.1</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Tonnage completed 1975-2006, CESA newbuilding requirement forecast to 2020 (+10% in 2006-10) and CESA capacity forecast to 2015.
Key points

- In general: If our evaluations on newbuilding requirement and shipbuilding capacity are correct or pointing in the right direction then we will face a huge oversupply of shipbuilding capacity within a few years. This we assume will eventually lead to closure of some facilities. It is, however, hard to predict where this will happen.

- Re. Europe - a number of yards have been underutilised in 2004 and 2005

- There is a widespread distribution of work within Europe in form of hull-construction and fitting out of ships being undertaken by different companies; often situated in different countries. This mainly refers to ships of less than 10,000 dwt. Structural changes is expected to lead to a relocation of part of the European shipbuilding activity in future years (e.g. hull-builders will also like to finish the ships)

Developments of the passenger vessels market

José Maria Domingo Briones
The passenger vessel sector covers:

- cruise vessel
- ferry
- small vessels for local service mainly important for local yards only

CRUISE

The cruise market is very volatile because of the leisure demand which drives it. In fact, cruising is considered an unnecessary spending.

Vacation in Las Vegas or onboard a cruise vessel?

The whole shipbuilding market is very partially represented by cruise ships: only about 3% of the total in CGT.

From what above said, there are only few consultants preparing forecast studies: the most famous of them is GP Wild.
Passenger share by area

Source: GP Wild

• 70% of cruise passengers are of North America origin (USA plus Canada).

Therefore, 325 million people drive the future of the cruise market.

• Europe itself represents the 20% of the market.

• What about the rest of the world?

The affluent classes living in other areas of the world, do not have experienced the excitement of a vacation on board a cruise ship yet

New customer → new leisure model? → new ships?
Cruise vessels (fleet growth 5%) Deliveries
FERRY

The market of ferry is quite steady and is mainly linked to local requirements.

- Three major geographical areas could be detected, each of them has its own peculiarity: North and South Europe, Far East (Japan)
- Demand mostly driven by replacement: bigger and more effective ships
- Is the potential related to China?
- Only 2% of world’s shipbuilding market (cgt)

ROPAX/Ferries Deliveries
(medium and large size only)

Ro-pax vessels with Loa > 100 m

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>cgt</td>
<td>10000</td>
<td>20000</td>
<td>30000</td>
<td>40000</td>
<td>50000</td>
</tr>
<tr>
<td>share</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>
No further radical changes are expected in the tax free environment which has had and still has in some areas a considerable impact in ferry businesses. The global share of all ropax vessels is about 2% in global shipbuilding, in slow but stable decline.

Ferry deliveries (> 450 lane meters, > 12 passengers)

FERRY

Short term prospects in Europe

PRO:
- Strong pressure for moving the trucks from the congested road to the sea
- Increase of tourist flows
- Integration of the East European Countries into the E.U.

CONTRA:
- The high fuel prices penalizes the High Speed Ferries
- Unstable political situation in the East Med and more stringent security rules.
- Competition deriving from low cost airlines
CONCLUSION

Prospects for container vessels market

Ramón López Eady

Statistical Sources: Lloyd’s-Fairplay and Clarkson
• The container carrying fleet doubled in six years
• In particular the over-panamax fleet in the same period increased 6 times!
• The fleet is rather modern, therefore in the near future few vessels will be scrapped
Comparison Fleet & Orderbook in Mill. TEU

<table>
<thead>
<tr>
<th>Size in TEU</th>
<th>Fleet</th>
<th>Orderbook</th>
<th>25% of the existing fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td>less 1.000</td>
<td>25%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>1.000-3.000</td>
<td></td>
<td></td>
<td>28%</td>
</tr>
<tr>
<td>3.000-5.000</td>
<td></td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>over 5.000</td>
<td></td>
<td></td>
<td>87%</td>
</tr>
</tbody>
</table>

Fleet and trades development - year 2000=100

- port moves
- fleet TEU

SURPLUS
Recently the specialized press reported that the major container operators are in the RED.

AP Moller-Maersk forecasts a loss of 600 $M this year in its container business.

Boxship charter rates, having fallen dramatically from their highs, are now facing a further contraction.

Due to the high fuel cost, some lines have reduced the speed of the ships, easing the oversupply.
Prospects

**PRO:**
- Strong development of Asian economies
- New trades i.e. F.E. East-Africa or S. America-India
- Demand for medium-size vessels
- Long term healthy prospect for the world economy

**CONTRA:**
- The high fuel prices
- Fragile US economy, and its growing commercial deficit
- US dollar continues its devaluation

+++ Thank you for your attention ++++

more info at

www.cesa.eu