The Factors affecting the World Shipbuilding Supply and Demand

OECD WP6 Workshop
4-5 Dec. 2008

The Korea Shipbuilders’ Association
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1. Shipbuilding Demand Side
1. Is the China effect over?

- Chinese contribution to the increase of world oil seaborne trade volume:
  1st period: ’90 ~ ’00 (17%), 2nd period: ’01 ~ ’06 (28%),
- Chinese contribution to the increase of iron ore and container volume in the world respectively:
  Iron ore (1st period 52%, 2nd period 87%), container (24%, 11%)

Source: Fearnley
2. Is the China effect over?

- Chinese oil import will be doubled in 2015
- * China consumed 385 mil ton of oil in 2007 which is 10% or less in world total

- Steel production in China is supposed to be down in the near term, but will be steady thanks to the urbanization and industrialization (especially, in the western part of China); Demand for long-haul Iron ore is going to be steady

* China’s Communist Party unveiled its plan to double by 2020, the disposable income of the 750 m people in the Chinese countryside
* China unveiled recently 586bil. USD of plan to boost national economy by 2010
3. Expanding yards vs. prolonged newbuildings

- In 2007, greenfield yards and newly established yards took the order almost 30% of world total (86.1 mil. cgt) and also another 30% of this year (39.2mil. cgt)
- By shiptype, these yards took the orders of mainly bulker, tanker and small container ship
- A number of newbuildings in B.C. & Tanker might be completed behind the schedule or canceled

[Graph: Expanding Yards
Source: Clarkson Research Services]

[Graph: World Total (Orderbook)
Source: Clarkson Research Services Limited]
4. International Rule driving Newbuilding demand

- In 2006, tanker was the main driver for newbuilding orders, taking around 40% of world total (61.1 mil. cgt) : partly CSR effect
- Owners want to avoid the additional newbuilding costs.
- We have seen PSPC effect in 2007

* Next item : Ballast water treatment system ? GBS ? GHG ? Double hull B.C. ?

Increasing challenge ahead for shipbuilders ; Environmentally safe quality ship !
5. Replacement Demand

- Since 2003, ship-owners earned big money exploiting the old fleet
- As at the end of 2007, total world fleet is 770mil. gross tonnage;
  The fleet over 20 years: 26%
- The phase out of old tonnage could be one of the forces to soften the crash of freight market
2. Shipbuilding Supply Side
- Based on the delivery schedule, the completion peak might be seen within next 2 years, which will be way below 60 mil. CGT due to:
  Sub-prime loan trouble, green field yards’ taking lion’s share of workloads and shipping market correction

Source: Lloyd’s & Clarkson
2. World Shipbuilding Capacity Evaluation

- In April 2003, with the Chairman’s request, the Secretariat has prepared evaluation of shipbuilding capacity, utilising 2002 as the base year, with a forecast for 2007.

Definition of Future Shipbuilding Capacity
Future Shipbuilding Capacity is the Base Year Shipbuilding Capacity as modified by the following factors:
- Changes to the turnover factor.
- New, expanded or deleted capacity.
- Facilities used for other activities, such as military vessels, off-shore structures or other construction activities which could be converted to merchant shipbuilding.

- Global credit crunch → global investment shrinkage: except shipbuilding industry?

LONG-TERM CAPACITY EVALUATION MIGHT MISLEAD UNDERSTANDING EXACT SITUATION ON THE CAPACITY DEVELOPMENT!
3. Global Credit Crunch & Shipbuilding Industry

- Tight credit supply to make it harder not only for shipowners to finance new ships, but also for shipbuilders who entered into world shipbuilding industry recently

- Implication:

  - For shipping market perspective, tight credit condition may prevent emergence of excess capacity in the near future especially for bulker, small containership and so on
  - For shipbuilding market perspective, credit turmoil disturbs newly entered yards completing their orderbook and facilities themselves
Owners consider freight market prospects, newbuilding prices and so on before ordering new ship. What we have learned under the current cyclical business circumstance; shipbuilders’ reliability (Not sub-prime yards) and profitability are welcome.
3. Closing Remarks
Closing Remarks

- World Shipbuilders enjoyed historical bullish market since 2003
- At the same time, world shipbuilding supply robustly invested
- Global credit crunch drive the global shrinkage;

NO EXCEPTION FOR SHIPBUILDING INDUSTRY

- Under the circumstances, it is unreasonable to imagine the global shipbuilding picture in mid & long term basis, therefore, we need to cautiously monitor the movements

- It is not the time to put international discussion for shipbuilding alone under the microscope but play our own role to overcome current harsh market first

- “We must start out with the premise that forecasting is not a respectable human activity and not worthwhile beyond the shortest of periods”
  – Peter Drucker