Current status of the shipbuilding industry and its susceptibility to distortion

Ministry of Land, Infrastructure, Transport and Tourism (MLIT), JAPAN
1. Current status of the shipbuilding market

2. Susceptibility to distortion
Current status of the shipbuilding industry

World completions

- Data Source: Lloyd’s Register
- Ship Size Coverage: 100 Gross Tonnage and over.

(note) 1. Data Source: Lloyd’s Register.
2. Ship Size Coverage: 100 Gross Tonnage and over.
World new orders

Current status of the shipbuilding industry

2. Ship Size Coverage: 100 Gross Tonnage and over

A Calender Year

Data as of 1st Quarter 2012
Current status of the shipbuilding industry

World orderbook

(note) 1. Data Source: Lloyd’s Register.

2. Ship Size Coverage: 100 Gross Tonnage and over

2012: Data as of 1st Quarter

A Calendar Year
Current status of the shipbuilding industry

Future prospect for Supply-Demand gaps

New orders

Completions

Significant Gaps

Data source: Lloyd’s Register and Clarkson
What is market distortion?

- Definition of “market distortion” by Worldyards

Actions aimed at either the supply side or the demand side that would result in a shift in the supply and demand curves that would otherwise be expected absent those actions.

Examples of government measures (C/WP6(2012)15, page 7)

- **Supply side**: debt forgiveness for builders, direct subsidies to shipbuilders
- **Demand side**: locally built requirements

These aim to increase the demand, i.e., the number of vessels for home shipbuilders.
Why do governments intervene?

Why do governments aim to increase the number of vessels for home shipbuilders?

Shipbuilding as a strategic industry capable of delivering public policy outcomes

Examples (OECD WP6 report, “Factors affecting the structure of the world shipbuilding industry,” November 2007)

- Employment generator
- Contributor to industrial capacity
- Strengthen technical and technological capability
- Defence Capability
- Investment Vehicle
How susceptible is the shipbuilding industry to distortions?

<Suggested discussion points by the Secretariat>

- Is shipbuilding more, or less, susceptible to distortions than other industry sectors?

  [Sub-questions]

  - Is shipbuilding likely to be an industry that governments are inclined to support?
    - The answer depends on the recognition of governments on how important the shipbuilding industry for their countries.

  - Do government measures supporting for the shipbuilding industry have impact on the world shipbuilding industry?
    - It may depend on scales and types of measures taken, but considering the global nature of the industry, consequences of such measures are likely to be global even if the measures are implemented locally.
• Do regular boom-bust cycles exacerbate the risk of distortions in the market?

• If there is overcapacity in the industry, can this act as a catalyst for distortion in the market?
  – Yes. Boom-bust cycles contribute to occurrence of significant gaps between supply and demand of ships.
  – When this happens, in particular in case of overcapacity, governments may consider supporting measures to increase the demand for their home shipbuilders.

• What is the likelihood of market distortion given current economic circumstances?
  – It depends on the magnitude of the gaps and governments’ recognition on the importance of the shipbuilding industry.

Let’s see what happened in the past.
Past shipbuilding recessions

Transition of the world shipbuilding industry

New Orders, Completions (1000GT)

Orderbooks (1000GT)

Year


1st Oilshock
1st Curtailment of the capacity
2nd Curtailment of the capacity
2nd Oilshock

Orderbooks
Completions
New Orders
### Chronological Table of Actions taken

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Details</th>
<th>International Dialogue</th>
<th>Within Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950s</td>
<td>50% share of the world shipbuilding market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1973 | 1st Oil Crisis  
- Sharp fall of tanker market  
- Extremely glutted market  
- Extreme price competition | 'General Guidelines For Government Policies in the Shipbuilding Industry' (OECD) | |
| 1974 | | | |
| 1975 | | | |
| 1976 | Friction between Japan and Europe | Instruction of the export price operation control | |
| 1977 | | | |
| 1978 | 2nd Oil Crisis  
- 'Mini boom' in the dry cargo market | 1st Curtailment of the shipbuilding facility (37%) | |
| 1979 | | | |
| 1980 | | | |
| 1981 | | | |
| 1982 | | | |
| 1983 | 'Handy Bulk boom' | Amendment of the General Guidelines in 1976 (OECD) | |
| 1984 | | | |
| 1985 | | Plaza Accord | |
| 1986 | | Operation control | |
| 1987 | | | |
| 1988 | Extremely glutted market | 2nd Curtailment of the shipbuilding facility (23%) | |
| 1989 | | | |

The beginning of rapid development of the shipbuilding industry
**Year 1979**

World market share

Japan: Europe = 1:1

Common understanding of necessity for restructuring policy

~ Japan ~
Capacity reduction by government initiative

~ Europe ~
Subsidy reduction by EU

**Goal of world supply reduction**

**Year 2011**

World market share

Korea 35%

China 39%

Japan 19%

EU 2%

Common understanding of sustainability for the world ship building industry

How?

What?
Summary

• There are and will be significant gaps between supply and demand in the shipbuilding industry.

• Huge gaps provide strong interests for governments to take measures to support the industry.
  – Measures targeting on demand side are likely to have negative global market distorting impacts and delay the market adjustment to imbalance of supply and demand.

• Compared to the past recession, major shipbuilding countries had changed: Now, China, Korea and Japan.
  – For China and Korea, this will be a first time to face such severe overcapacity.
Thank you for your kind attention.