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THE CURRENT SUPPLY AND DEMAND STATE OF THE WORLD SHIPBUILDING INDUSTRY  
AND ITS FUTURE PROSPECTS

(Paper by China)

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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

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**THE CURRENT SUPPLY AND DEMAND STATE OF THE WORLD  
SHIPBUILDING INDUSTRY AND ITS FUTURE PROSPECTS**

1. Judging from the present demand-supply situation, the world shipbuilding market has been thriving in recent years and the world shipbuilding capacity has appeared inadequate.

2. During the past few years, the world shipbuilding market saw an unprecedented thriving and the orderbooks continue to grow swiftly year after year. The annual average new order reached 78.86 million DWT between 2001 and 2005, being obviously higher than the annual average volume between 1996 and 2000 (51.94 million DWT) and that of the previous historical peak time (1971~1975).

**Comparison of Three Major Indicators for Shipbuilding in Different Stages**

Indicator	Unit	2001~2005	1996~2000	1971~1975
New Order	DWT	Annual average: 78.86M Max.: 116.70M (2003)	Annual average: 51.94M Max.: 58.30M (1997)	Annual average: 63.78M Max.: 129.60M (1973)
	CGT	Annual average: 54.43M Max.: 76.95M (2004)	Annual average: 32.14M Max.: 45.14M (2000)	Annual average: 34.23M Max.: 72.81M(1973)
Orderbook	DWT	Annual average: 170.48M Max.: 226.90M (end of 2005)	Annual average: 93.18M Max.: 112.50M (end of 2000)	Annual average: 179.75M Max.: 242.32M (end of 1975)
	CGT	Annual average: 115.05M Max.: 160M (end of 2005)	Annual average: 57.86M Max.: 71.10M (end of 2000)	Annual average: 100.42M Max.: 128.90M (end of 1973)
Completion	DWT	Annual average: 55.98M Max.: 68.40M (2005)	Annual average: 38.62M Max.: 45.80M (2000)	Annual average: 51.92M Max.: 61.85M (1975)
	CGT	Annual average: 37.34M Max.: 45.71M (2005)	Annual average: 27M Max.: 31.24M (2000)	Annual average: 29.86M Max.: 34.20M (1975)

Note: (1) The figures in CGT are referred to the statistics of the Lloyd's Register. Those in DWT referred to Clarkson's statistics for the period between 1996 and 2005 and the statistics of Fearnleys for the period between 1971 and 1975.

3. In particular, the world shipbuilding market situation is far beyond our expectation in 2006. Not only continues to blossom, it is also expected to set a historical new record for the new orders by reaching approximately 130 million DWT. In addition, we've also noticed that, as the crude oil price remains high, the offshore oil drilling and production have come to

a stage of vibrancy, bringing forth a favorable development opportunity for the offshore equipment market. This year, the major shipbuilding countries have made outstanding achievements in the offshore equipment market. Under the situation that the world markets for both shipbuilding and offshore equipment are flourishing, the major shipyards have continually broken the record in terms of orderbooks. By the end of this year, the orderbooks of the world will be over 300 million DWT. Calculated on last year's completion of 70 million DWT, these orderbooks can fully ensure the next four years' work load of the shipyards.

4. Besides, the world's shipbuilding capacity is also increasing. Between 2001 and 2005, the annual average completion is about 60 million DWT. However, compared with the annual average new orders of 78.86 million DWT, the growing speed of the shipbuilding capacity lags far behind than that of demand; and if the annual average completion and the new orders are predicted to be 80 million DWT and 130 million DWT respectively, this gap will be even bigger. Meanwhile, according to Clarkson's statistics, the delivery term for all ships ordered in Korean, Japanese and Chinese shipyards this year exceeds 36 months on average. There has been a general shortage of building slots in the major shipyards worldwide and the utilization ratio of the shipbuilding capacity has been saturated. Thus we can see that the present development speed of the world's shipbuilding capacity cannot meet the fast growing market demand, and the world shipbuilding market is still a typical "seller's market".

5. ***Viewing from the tendency of changes of midterm demand-supply relation in the world shipbuilding market, the future world shipbuilding capacity will be greatly heightened. However, the positive factors in support of the thriving market demand still exist. In general, the demand-supply relation will not be reversed before 2010.***

6. Being boosted by the increasing market demands, the world shipbuilding capacity is growing rapidly nowadays. Along with the continuous release of the shipbuilding capacity and improvement of the shipbuilding efficiency, the shipbuilding capacity is predicted to increase substantially and the present insufficiency of the same will be effectively relieved. However, we've also noticed, among the new and expanded facilities, the really competitive ones may still not meet the future market demand. Therefore, judging from the midterm development trend, so there is little possible for any substantial reversion of demand-supply relation of the world shipbuilding market to happen before 2010.

7. Firstly, the world economy will continue to grow steadily in the next few years, and BRIC will play a more active role, which provides a favorable condition for the prosperity of the world shipping market and also lays a solid foundation for the continuous blossom of the world shipbuilding market. According to the economic forecast made by the International Monetary Fund in September, the growth rate of the world economy will reach 4.9% in 2006 and the annual average growth rate will exceed 4.3% between 2007 and 2010. Generally speaking, the world economy will continue to grow swiftly in the next few years and the annual average growth rate is obviously higher than that of the past ten years, which was less than 4%. Besides, in recent years, the emerging market-economy countries like Brazil, Russia, India and China have achieved continuous rapid economic growth, which is changing

the pattern of the world economic growth and to a great extent is counteracting the negative influence on the world economy due to slow economic growth in the Euro zone. In the forthcoming years, the new market-economy countries represented by Brazil, Russia, India and China will further contribute to the growth of the world economy. In the meantime we have also noted an accelerated economic growth in U.S.A, a mighty economic recovery in Japan and a steady economic growth in Europe since last year among the developed economies, It is the steady growth of the world economy and the swift economic raising of the emerging countries that have provided a forceful support to the continuous prosperity of the world shipping and shipbuilding alike.

8. Secondly, the ship owners look promising the future shipping market, and they still have an intense desire to place order for new ships. Judging from the growing trend of the world economy, the trade and sea freight volume, the ship owners highly value the future development of the world shipping market. Meanwhile, after the blossom of the shipping market between 2003 and 2005, the owners have accumulated enormous funds; and in order to cater for the next round of the market, they will actively place orders for new ships. Besides, considering the fact that the flourishing shipping market in previous years has postponed the scrapping of a large number of old and outdated ships and that the single hulled tankers will be dismantled by 2010, there will be a big demand for ships in the next few years. What is more, a positive factor for the shipbuilding market can also be seen from the fact that the shipping companies are expanding towards direction of large-scale operation by adjusting the fleet structure and actively enlarging the fleet size.

9. Thirdly, the demand for offshore engineering equipment has come to the peak time, providing a wider space for the further development of the shipbuilding industry. During the last years, the oil price has continuously remained high, the fundamental causes are the increasingly large demand for oils and the heavily insufficient supply of the same. What is worse, in the next few years, the world petroleum demand and supply relation will probably be deteriorated. Hence, countries in the world have quickened their steps on offshore oil prospecting and exploration, which provides a favourable condition for the prosperity of the world offshore equipment market. It can also be predicted that as long as the oil price remains steep, the world offshore equipment market will continue to be flourishing.

10. Fourthly, along with the further release of the shipbuilding capacity of the major shipbuilding countries like China, Japan, Korea and other emerging shipbuilding countries, the world's future shipbuilding capacity will be increased substantially. However, it will take a relatively long time for the newly increased capacity to become real international competitiveness and bring forth noticeable impact on the international shipbuilding market. In the mean time, we shall also notice that the keen market competition will force the shipbuilding capacity that lacks technical innovation ability and competitiveness to retreat gradually from the market. Since the market mechanism has the function of automatic balancing the supply and the demand, so any external interference on the market should be minimized as far as possible.

11. It goes without saying that while the market continues to be flourishing; we should also pay adequate attention to the negative factors affecting the market. The increase of orders and the deferment of delivery term will not only bring a high pressure on international shipping market, but also increase the market risks to both shipbuilders and ship owners; moreover, we cannot deny the fact that the flourishing market includes to a certain extent speculative new ordering, the volume of new order may not reflect the real market demand accurately. Besides, the world economy is also challenged by many risk factors such as the high oil price, the frequent regional conflicts, etc. All these factors may bring negative impact to the future shipbuilding market demand and should deserve our high attention.

12. Generally speaking, we are optimistic to the trend of the world shipbuilding market before 2010.

13. ***Viewing from the midterm demand for major ship types, our major judgment is: the growth of the demand for crude tanker tends to slow down, but there is still a big demand for renewal; the bulk carrier market will be more vibrant; the demand for container ships will decline substantially; LNG carriers and offshore engineering market will remain long-term thriving.***

- Demand for new addition of tankers tends to slow down, with big demand space for renewal

14. Judging from the delivery time of the tankers in order, though the speed to put the new crude tankers into the market is accelerated, the capacity excess becomes more and more projecting. Between 2005 and 2010, the size of oil tanker fleets will grow rapidly with the annual average rate of 7.8%, and the new demand for oil tankers tends to decline. However, there are 1049 single hulled crude tankers amounting to 92.739 million DWT currently in the world. While taking IMO's plan of scrapping single hulled crude tankers into account, a big demand space for tanker renewal could be expected.

- Bulk carriers will have a good market demand

15. The evidences show that the growth of steel industry in China will be quicker than it was estimated in the next few years and the growth speed for ore import will continue to maintain a high level. Meanwhile, boosted by the growth of the global demand for coal consumption, the shipping market for coal will also be vibrant. Therefore, the future shipping market for bulk cargos will keep in blossom and there will be a growing demand for bulk carriers. Furthermore, in recent years, the number of order for bulk carriers has been obviously less than that of tankers and container ships. By September 2005, the proportion of bulk carriers on order is only 20.7% of the fleets. Moreover, in the present fleets, the bulk carriers aged 20 or above account for 42%, higher than that of the tankers and container ships, which are 21% and 20% respectively. In the next few years, there will be a big demand for renewal of bulk carriers.

16. Because of all the reasons as mentioned above it is to conclude that the shipbuilding market for bulk carriers tends to be more vibrant.

- Noticeable decline of market demand for container ships, but potential demand for small and medium-sized container ships is big

17. As you know, the global transportation capacity of container ships has enjoyed a very quick growth in recent years. Based on the analysis of the world economy, the sea freight volume in containers and the shipping capacity of container ships, the container freight market situation will still be quite optimistic both in demand and supply during the coming years. However, due to the fact that the input of the hauling capacity is faster than the growth of freight volume, the situation that supply exceeds demand will intensify, and the market demand for hauling capacity of container ship fleets will slow down. While viewing from the composition of the order book, the present orders for container ships mainly focus on Panamax and Post-Panamax container ships, whereas the orders for small and medium-sized feeder container ships are relatively insufficient, having a large market potential. Therefore, although the container shipping market has to face the pressure of capacity excess in the next few years, yet the market prospect of small and medium-sized feeder container ships will remain optimistic.

- LNG carriers are demanded enormously

18. Nowadays, owing to the increasingly high oil price and the high pressure coming from the requirements for environmental protection, the natural gas, as a highly efficient and clean energy, enjoys increasing favor of the countries all over the world. The world natural gas market maintains a trend of rapid growth and in particular, LNG sea trade plays a more and more important role in this market. Statistics show that the world's annual production capacity of LNG was 143 million tons in 2005, and it will ascend to 244 million tons and 457 million tons in 2008 and 2012, increasing by 70.6% and 220% than that in 2005. Along with the sharp expansion of LNG production capacity in the world, there will be an increasingly high demand for new additions of LNG carriers in the world market.

- Offshore engineering equipment market maintains thriving.

19. When the global oil demand continues to grow and the oil price remains high, the offshore oil drilling and exploration will come to a new peak time and the world offshore equipment market will have a huge demand for new additions. Moreover, a large number of the mobile drilling platforms need to be scrapped and renewed (among the existing mobile drilling platforms, 80% of them are aged 20 years or above and 40% are aged 25 years). In the years to come, the world offshore equipment market will continue to be flourishing.

20. In conclusion, the above analyses indicate that:

21. Firstly, the world shipbuilding market is still in a highly thriving state nowadays. The development speed of the world shipbuilding capacity is far lower than the growth rate of the market demand, and the shipbuilding capacity is apparently insufficient, thus featuring

largely in the “seller’s market”.

22. Secondly, before 2010, the world economy will continue to grow at relatively high speed, which accordingly supports the world shipbuilding market to maintain flourishing. Meanwhile, the offshore engineering market has entered the peak demand time and it will continue to grow. Although the world shipbuilding capacity will increase rapidly in the next few years, the overall demand-supply situation will not have any significant change.