

Implication of Market Distortion from Shipbuilders' Perspective

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The points

1. Competitive ship live a longer market life
2. Market distorting action – short term or long term?
3. Is the market equally susceptible to technical merits?
4. Is greener shipping really a key word?
5. Financial benefits are to be equally blamed
6. Growth oriented strategies – will this be back again?

1. Competitive ships live a longer market life

- Many ships are being built with finance (bankers rule the decision principle)
- Profitable ships can secure maintenance budgets
- Healthy balance sheet principles apply (sell poor performing ships quickly)
- Ships sold will still sail

Longevity of forced low capex ships will create downward pressure of ships after many years.

Market distorting action will not only affect the market in the short term but also long term.

2. Market distorting action – short term of long term?

Market distorting action is taken when shipbuilders are:

- *Desperate in securing work (loss prevention), or*
- *Trying to enter a new market, or*
- *Trying to create track record of technology developed, or*
- *Expecting some means of rescue by taking the action*

The shipbuilders are well aware of the negative effects of taking orders through market distorting action.

- They do not intend this to be chronic. -

3. Is the market equally susceptible to technical merits?

How important is it to have technically more superior ships if they are costly?

The market behaviour would suggest that there is only a limited possibility because:

- Those imposed in harsh competition normally will go for “rule minimum” principle, since there is comparatively little incentive in doing so
- While vetting systems are being reinforced, technical superiority is only confined to specific revenue related features
- Maintenance and repair budgets are likely to be controlled under separate regime with little feedback from initial quality

Market distorting action are likely to take place when the market is bad
→ More neglect for technical superiority



Establish a more robust system to properly assess technical improvement combined with incentive or rewarding system.

4. Is greener shipping really a key word?

Concern:

When the market worsens, the momentum to seek for greener ships may be diminished, unless regulatory control is in effect.

 ***The incentive is needed to challenge this issue.***

Shipbuilders must have an open-minded vision to promote sharing of technology, where incentive is again a key word.

5. Financial benefits are to be equally blamed

The issue of market distortion usually tend to focus on
price vs. cost

Financial benefits are equally effective to invite market distortions, as long as such will contribute to improving the revenue projections.

- Shipbuilding contract: US Dollars
- Building costs: costs accrued in building country



Exchange rate will also do similar or even more harm than financial benefits.
 (some currency market could be subjected to some kind of control)

6. Growth oriented strategies – will this be back again?

Shipbuilding industry has for a long time been under the stress of over-capacity.

Past	<ul style="list-style-type: none"> • A large number of tankers were ordered prior to the “oil shock” in late 1970s, and this took 30 odd years to reduce such over supply. • Japanese shipbuilders curtailed shipbuilding facilities twice, inspired by the Japanese government.
Present	<ul style="list-style-type: none"> • The situation was back again when the market boom inspired global facility enhancement. • The maritime industries are already dominated by pessimistic overview only after 4 years from the “Lehman shock”.

It is expected that this is the right opportunity to remind that growth oriented strategies are outdated strategies and the industry must create a new scenario of our future.