

Sea of Troubles

Shipbuilding

For the Japanese shipbuilding industry, 1987 was the worst year of the current business recession. Shipbuilding orders won by Japanese companies as seen in building permits granted by the Transport Ministry are estimated at 3.6 million gross tons, a decrease of 25% from the previous year and the lowest since the previous recession year of 1978.

That recession was caused mainly by the massive cancellation of tanker construction orders in the wake of the oil crunch in 1973. However, an improvement in the dry cargo ship market in 1979 helped the industry out of its difficulties as orders came in for bulk carriers.

This time, however, there are no easy answers. The industry is suffering from a structural recession caused by numerous intractable factors: a continued sluggish trend in seaborne traffic of main cargoes, a resultant decline in ship demand, the rise of new competitors—particularly South Korea—rich in low-cost labor, and the decline in Japan's dollar cost-competitiveness as a result of the continued strong yen.

The situation has led the council for rationalization of shipping and shipbuilding, an advisory panel to the transport minister, to advocate restructuring the industry, now plagued by overcompetition, and closing surplus shipbuilding facilities. The council has recommended reducing building berths or docks by at least 20% of installed capacity and inte-



An idle dockside symbolizes the recession in the shipbuilding industry caused by sluggishness in seaborne traffic, the rise of new competitors and the continued strong yen.

grating shipbuilding businesses through capital, business and other tie-ups.

On the basis of the recommendations, the government promulgated a management stabilization law in April 1987. Under this law, more than 20% of installed shipbuilding capacity will soon be scrapped, and some medium-sized shipbuilding companies with only one berth or dock will withdraw from the shipbuilding business entirely. It is expected to be another two to three years before building orders recover in earnest. It seems 1988 will be another year of low ship prices and small orders for Japanese yards.

Shipping

The Japanese shipping industry, too, is experiencing its worst difficulties since the integration of shipping enterprises in 1964 under Transport Ministry guidance. The difficulties stem from a slowdown in world trade, a prolonged shipping market slump caused by an oversupply of ship bottoms and a decline in shipping firms' yen-denominated freight revenues.

The six major Japanese liner operators finished fiscal 1986 heavily in the red, with five of them failing to pay dividends for the year. The recession continued over into 1987 for the liner, trampoer and

tanker business. At the same time, the yen has continued to appreciate against the U.S. dollar, further spurring the deterioration in business performance.

In the liner field, the already keen competition among operators on transpacific routes to North America has turned keener. The new U.S. shipping act of 1984 has caused international freight cartels to malfunction, while operators are mired in excessive competition. According to a Transport Ministry survey, the combined North American route trade deficits of Japan's six major liner operators reached ¥69 billion in fiscal 1986, the worst of any route. In 1987, too, the six lines have been incurring heavy losses, although there may be some improvement from the previous year.

Trampoer divisions have fared comparatively well so far in 1987. The usual summer doldrums did not materialize last year due to concentrated purchases of U.S. grain by the Soviet Union and the recovery of free world crude steel production. However, the pressure of a 20% oversupply in trampoer bottoms stands in the way of further increases in freight rates.

Freight rates rose somewhat for tankers, due in part to fighting in the Persian Gulf and partly to crude oil price trends. However, no full-scale recovery can be expected for some time, given the 29% oversupply of tankers and a significant slowdown in shipbreakings.

Under the circumstances, major Japanese shipping companies are scaling down their fleets by returning, selling or scrapping obsolescent or uneconomical ships. They are also sharply reducing their work forces.

Yet shipping firms will still find it all but impossible to eliminate their liner business deficits in 1988. Car carrier revenues will also decline as a result of sagging auto exports. Japanese shippers will be obliged to cut costs further in the coming year.

(Sukehiro Itoh, senior economist)

Shipbuilding

	FY 1984	FY 1985	FY 1986	FY 1987 (estimate)	FY 1988 (forecast)
Ships ordered (1,000 gross tons)	7.212	6.451	4.832	3.600	3.900
Ships completed (1,000 gross tons)	9.071	8.295	8.005	4.600	4.100

Source: "Ships ordered" statistics based on shipbuilding permits granted by the Transport Ministry

Freight Market

	CY 1984	CY 1985	CY 1986	CY 1987 (Jan.-June)
Trampoer freight	172.6	167.0	156.6	168.5
Tanker freight (VLCC, ULCC)	35.1	31.7	33.0	33.1

Notes: 1. Trampoer freight index: July 1965-June 1966 = 100
 2. Tanker freight: VLCC (very large crude carriers) and ULCC (ultralarge crude carriers) = 150,000 dwt or larger
 3. World scale = 100

Source: Shipping News International