

# Making Headway

## Shipbuilding

The Japanese shipbuilding industry finally emerged from a long recession in 1989 and made good headway.

In fiscal 1987, amid the protracted shipbuilding recession, the industry disposed of a little more than 23% of its facilities, and drastically cut its work force. Sustained by a worldwide increase in demand for oceangoing transportation, the shipping market has now improved. Tramp and tanker services have been following a rapid upward trend. On the other hand, the South Korean shipbuilding industry, which at one time almost caught up with Japan in terms of shipbuilding orders received, has been hit by a rise of the won against the U.S. dollar and an increase in labor and materials costs since 1987.

Under these circumstances the now-streamlined Japanese yards are faced with an embarrassment of riches. With so many new orders for ships, the shipbuilders have started to feel that there are not enough building slips to meet all the orders, and consequently the cost of ships has sharply climbed.

The Transport Ministry's ship construction approval figures show that orders for new ships from Japanese yards in fiscal 1989 approached 7 million tons, a sharp increase over a level of 4 million tons a year for the preceding three consecutive years. With its labor force reduced, the industry's real shipbuilding capacity is estimated to be about 3.4 mil-

lion CGT (compensated gross tonnage) against the officially announced 4.6 million CGT.

New shipbuilding orders can be anticipated to continue to hold the level of more than 6 million tons also in fiscal 1990, while seagoing cargo movements are expected to remain steady, and there will still be a shortfall in shipbuilding yards.

It is certain that in the 1990s full-scale work on replacing the world's aging fleet of very large crude carriers (VLCCs) will be undertaken. Also, since it will be difficult for the yards to quickly restore their work forces, new shipbuilding orders are expected to remain firm as a long-term trend and costs of building new ships to continue rising.

## Shipping

The environment surrounding the Japanese shipping industry has regained some vitality after a prolonged recession. The six major shipping companies, their liner, tramp and tanker divisions having surfaced from the depths of the depression, have posted black-ink figures (including profits from sales of negotiable securities) in terms of recurring profits.

In 1989, 13 shipping companies, including non-conference members, concluded an agreement to stabilize the transpacific liner service (whereby about 10% of their capacity was frozen), laying the foundation for an improvement in the liner-



Emerging from a long recession, Japan's shipbuilding industry started to make good headway in 1989.

operating situation. Such developments, coupled with steady oceangoing cargo movements, improved the supply/demand balance of the container fleet, and a series of raises in freight rates rapidly diminished the deficits incurred by these services. Nevertheless, shipping firms are expected to continue to be plagued by deficits as conventional liner services' deficits are expanding, while services to Europe are experiencing deteriorating profits.

Tramp divisions of shipping lines, underpinned by concentrated Soviet purchases of U.S. grain and active crude steel production, are faring well. Although the total volume of scrapping has decreased owing to the recovery of the shipping market and the sharp rise in the cost of ships, for the present, the balance of demand and supply of dry bulk carriers is expected to be maintained.

As for tanker divisions, sustained by crude oil production exceeding the limit set by OPEC and firm demand for oil from OECD countries including the U.S., demand/supply of tankers has continued to follow an upward trend. As with tramp divisions, a rapid erosion of demand/supply of tankers is not foreseeable, with cargo movements being steady for the present, although the total volume of scrapping is slowing down considerably and the number of new ships built is expected to grow.

On the other hand, replacing antiquated ships, mainly obsolete VLCCs, poses a major problem for tramp and tanker divisions alike toward the 1990s. The same shipping market environment that characterized 1989 is likely to be seen again in 1990. In 1990, liner divisions' deficits are expected to be reduced as the profitability of North America services will see an improvement, while firm markets are anticipated for tramp and tanker divisions. Thus shipping firms can be expected to remain in the black in 1990. ■

(Seiichi Inoue, economist)

## Shipbuilding

(1,000 gross tons)

	FY 1986	FY 1987	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
<b>Ships ordered</b>	4,832	4,389	4,849	7,100	6,300
<b>Ships completed</b>	8,005	4,367	4,325	5,100	5,500

## Freight Market

	CY 1986	CY 1987	CY 1988	CY 1989 (Jan.-Aug.)
<b>Tramp freight</b>	156.6	174.3	194.7	206.0
<b>Tanker freight (VLCC, ULCC)</b>	33.0	41.8	43.8	43.8

Notes: 1. "Ships ordered" statistics based on shipbuilding permits granted by the Ministry of Transport  
2. Tramp freight index: from *Shipping News International*; July 1965-June 1966 = 100  
3. Tanker freight index: from *Shipping News International*; VLCC and ULCC (ultralarge crude carrier) = 150,000 dwt or larger