INDUSTRIAL SURVEY

Shipbuilding

Adrift in Stormy Seas

The Japanese shipbuilding industry entered a serious recession in fiscal 1986. Shipbuilders, now heavily in the red, have been obliged to drastically reduce their labor forces and production capacity in order to survive.

Shipping companies, hit hard by the ongoing recession in the cargoliner, tanker and dry cargo businesses, have little desire to invest in new ships. Moreover, the yen's rapid rise against the U.S. dollar has reduced the cost competitiveness of Japanese shipbuilding companies, widening the cost gap between them and their competitors in South Korea and other countries.

New shipbuilding orders won by Japanese shipyards during fiscal 1986 are expected to be down by about 40% from the previous year, as reflected in shipbuilding permits issued by the Transport Ministry. In tonnage they are feared to fall below 4 million gross tons for the first time since fiscal 1978. The tonnage is only about a third that of fiscal 1983 when shipbuilders enjoyed a "miniboom" as a result of massive orders placed by shipping companies, mostly Sanko Steamship Co., then one of the world's largest tanker and bulk carrier operators, either by itself or through Japanese trading giants. Ironically, Sanko itself has since been plunged into a financial crisis by the shipping recession. The situation in the Japanese shipbuilding industry is not likely to improve in fiscal 1987. Rather, it is likely to deteriorate further.

The contract prices of ships ordered in 1985 were down by at least 40% from the peak recorded in fiscal 1981. They are already below the break-even point. There will probably be no further significant declines in the immediate future, but no increases, either.

Actual ship completions by tonnage, which peaked in fiscal 1984 due to the miniboom, have turned downward, and the pace of decline quickened in fiscal 1986. Ships to be completed by Japanese yards in fiscal 1986 total about 7 million gross tons, down 15% from the previous year. The figure is forecast to decline further to an estimated 5 million gross tons in fiscal 1987, down another 30%, leaving a number of shipbuilding berths and docks idle.

The shipyards' order backlog—those ships either under construction or on order—at the end of fiscal 1986 will also likely be well below the 9 million gross tons of the year before. At 6 million gross tons, the order backlog will be far short of what is necessary to keep Japanese yards going for even a single year. It is a dangerously low level, as an order backlog large enough to keep yards busy for two years is considered appropriate for the industry.

The Japanese shipbuilding industry as a whole is and will be heavily in the red, reflecting not only the declines in ship prices and work volume (orders), but also delays in payments by shipping companies, their requests for price cuts and contract cancellations.

In the case of 13 medium-sized shipbuilding companies that, unlike major shipbuilding concerns, specialize almost exclusively in shipbuilding, their ordinary profit (profit before extraordinary items) will probably be some ¥15 billion (about $91 million) in the red in fiscal 1986, compared with the ¥12.2 billion in profits recorded in fiscal 1985. In fiscal 1987, ordinary losses are expected to treble to ¥45 billion—the worst yet in the current recession.

Major shipbuilding companies may almost be called integrated heavy machinery enterprises as their emphasis now is on nonmarine machinery and aircraft production. They are forecast to sustain ordinary losses in shipbuilding totaling tens of billions of yen in both fiscal 1986 and 1987.

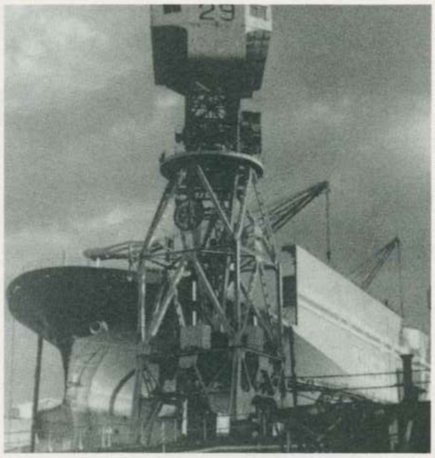

Photo: Kyodo News Service

Japan's shipbuilders are now heavily in the red; some have already decided to reduce yard capacity by more than 20% in 1986.

Under the circumstances, Japan's shipbuilding concerns are aiming at balanced reductions. In the recession of 1978–79, the Japanese shipbuilding industry reduced its capacity by a drastic 35% by scrapping or idling surplus berths and docks. They also cut their labor forces proportionally. Immediately afterward, the second international oil crunch intervened to drive demand for new ships even lower. Add in an increase in shipyard productivity, and the result is the current severe structural overcapacity of Japanese builders.

The Council for Rationalization of Shipping and Shipbuilding has recommended to the Transport Minister that the Japanese shipbuilding industry reduce its production capacity another 20% and that shipbuilders themselves work to regroup and integrate their businesses.

Most shipbuilding enterprises are now working out new business strategies along the lines of the recommendation. Some companies have already decided to reduce their yard capacity by more than 20%. They are shutting down some of their yards or idling or dismantling docks, as well slashing their yard work forces by more than 20%. In fiscal 1987, such concerns will likely carry out even further capacity and personnel reductions to survive the deepening recession.

How far can the Japanese shipbuilding industry go toward achieving its ultimate target—a sweeping reorganization, up to and including business mergers? Japan is still the world leader in tonnage of ships built. Nonetheless, its shipbuilders are cutting their capacity through bold and desperate rationalization in order to help stabilize the world shipbuilding market. ●

(Naoyuki Goto, economist)

Shipbuilding Statistics

	FY 1983	FY 1984	FY 1985	FY 1986 (estimate)	FY 1987 (forecast)
Ships ordered (1,000 gross tons)	12,428	7,212	6,451	3,700	3,200
Ships completed (1,000 gross tons)	6,969	9,071	8,295	7,000	5,000
Ordinary profit (¥ billion)	28.8	22.3	12.2	−15.0	−45.0

Notes: 1. Ships ordered is in terms of shipbuilding permits issued by the Transport Ministry; ships completed based on Ministry statistics.
2. Ordinary profit (profit before extraordinary items) is for 13 medium-sized shipbuilding companies only.