

Rough Waters Ahead

Japan's shipping industry is facing a double-edged problem: weak shipping activity associated with the recession, and a strong yen. In the first half of fiscal 1993, five major Japanese shipping companies' combined ordinary income declined 73% year-on-year, with three out of the five recording ordinary losses, a 9% decline in combined sales. The full year results are also expected to show a significant earnings decline.

There are four main reasons for the decline in earnings, the first being a sharp appreciation in the yen. About 70% of total fare revenues are denominated in dollars; as the dollar proportion is still lower in costs than in revenues, the yen hikes in 1993 had a large negative impact on profits. Weak auto exports caused severe damage to the overall earnings structure for pure car carrier operations, the biggest earnings contributor to major shipping companies.

In addition, despite increasing volume, widening losses in the liner operations for both the Transpacific and European routes occurred. The lower profitability is due to global capacity expansions, which have depressed fare rates. A persisting weakness in the tanker market was also seen. Spot prices for tanker services in 1993 were far from the break-even point for quality new tankers.

For fiscal 1994, a sharp recovery in market fare rates is not expected. For the liner market, an expected overall capacity expansion resulting from new container ship launchings should prevent the currently depressed fare rates from recovering profitability. Also, the demand for pure car carriers is likely to decline further. Thus, overall earnings should continue to be depressed.

Facing these difficult conditions, a shift to overseas is now underway. This targets improving the earnings structure by increasing the proportion of dollar-based costs while reallocating resources in response to increasing Asia-bound cargo, which will involve drastic adjustments in not just vessels and crewmen

World Shipping Contracts

(Unit: 1,000G/T)

	1989	1990	1991	1992	1993 (Jan.-Sept.)
Japan (Share %)	9,695 (50.2)	11,143 (46.3)	8,073 (40.5)	5,208 (40.7)	4,968 (29.9)
South Korea (Share %)	3,223 (16.7)	5,737 (23.8)	5,107 (25.6)	2,213 (17.3)	6,641 (39.9)
EC (Share %)	2,738 (14.2)	3,883 (16.1)	2,889 (14.5)	2,102 (16.4)	2,455 (14.8)
Others (Share %)	3,650 (18.9)	3,302 (13.7)	3,841 (19.3)	3,276 (25.6)	2,566 (15.4)
Total (Share %)	19,306 (100)	24,065 (100)	19,910 (100)	12,799 (100)	16,630 100

Source: Lloyd's Register of Shipping

Note: Vessels of 100 G/T and more

but also ground operations organization and personnel.

Total shipbuilding volume in Japan rose five years in a row to over 8 million gross tons in fiscal 1993. Shipbuilding has been one of the few industries in the midst of the current severe recession with steady production growth. Earnings of shipbuilding operations are also expected to grow in fiscal 1993.

However, to date this strength has been the result of huge new orders placed during the 1989 to 1991 period. Since that time, new orders have weakened and orders have shrunk to one year from over two years at a peak. Although shipyard schedules are filled for fiscal 1994, newly-built vessels will be smaller. Moreover, most of these new vessels were contracted when prices were falling, and unit sales will inevitably decline greatly. Thus, shipbuilders' earnings are expected to be sharply weaker in fiscal 1994.

The Japanese shipbuilding industry has been the world's largest for three decades, consistently holding about 40% of market share. However, Japan's share of new orders weakened in 1993, allowing South Korea the top spot in new orders for the first time.

Sharp appreciation in the yen was the



The effects of the strong yen have also reverberated in the shipbuilding industry, which only recently has felt the recession's bite. (Chiba harbor)

main reason. Building costs in Japan were pushed up, widening the gap with those of South Korea thereby weakening the Japanese shipbuilder's competitiveness in gaining new orders.

Currently, the Japanese shipbuilding industry is devoted to raising productivity and cutting costs to recover its price competitiveness. Material costs, making up 60% to 70% of the total costs, must necessarily be lowered. Companies are trying to expand cheap overseas resourcing, and in some cases, have started work on possible overseas production of some ship body parts. Existing production and resourcing structures also need to be revised to restore competitiveness. ■

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