

Slashing Costs is Priority for Fiscal 1995

In spite of an upward trend in the movement of goods by liner, the leading Japanese shipping companies again suffered heavy losses in the liner sector in fiscal 1994, primarily due to market conditions in which freight tariffs remained depressed. On the other hand, bulkier goods movements and tariffs both trended favorably, mainly due to improved crude steel production in Japan. The hot summer was also a factor in an anticipated improved outlook for the tanker sector.

The five top maritime transport companies' total recurring profits increased 1.6% to ¥3.5 billion at the fiscal 1994 midterm close. In contrast to sharply declining profits in fiscal 1993, this was a reversion, even if slight, to an improved situation. The tanker and general tramp line sectors have offset growing liner sector losses, but overall profit levels have been low and in reality even profitable firms have tried to obtain profits by selling stocks or altering their write-off methods.

As intense competition for cargo booking is expected to continue in the liner sector in fiscal 1995, no significant loss reductions are anticipated. However, with the economic upturns in Japan and Europe it is thought that general tramp line and tanker sector markets and cargo movements will continue to be buoyant. A rapid earnings recovery is not foreseen, but the benefits of cost-cutting should contribute to a steadily improving outlook.

A harsh economic climate still confronts Japan's shipping industry and many issues must be resolved.

First, organizational and operational structures must be internationalized. The global cargo system is undergoing great changes and Japanese freight's relative importance is declining. Japanese shipping companies, whose operations have focused on Japanese shippers and freight until now, will be pressed to renovate their organizational and operational systems.

Further, cost-cutting will be essential to enhanced competitiveness. Because considerable progress has already been made in rationalization and conversion to dollar-based costs related to vessels by shifting registrations offshore, cost-cutting must focus on operational expenses and general administrative costs. This should lead to accelerated moves to shift some headquarters functions to overseas locations.

Although Japan's shipbuilding industry has boosted order volumes, it has suffered declining profitability due to lower vessel prices.

As prices have come down, new vessel construction orders have increased around the world and Japan has aggressively taken orders. First half fiscal 1994 order volume (based on Transport Ministry shipbuilding permits) was 2.3 times that of the same period the previous year, amounting to 6.09 million gross tons. On an annual basis it appears certain that after a four-year gap the 10 million GT mark will be broken for the first time since 1990.

However, vessel prices have continued to slide in spite of the accumulation of orders, triggered by South Korea's early 1994 announcement that an exten-

sive facilities expansion was planned. Japanese shipbuilders had misgivings about the South Korean shift to an aggressive stance toward order taking and began actively seeking new orders from the beginning of the year, leading to heavy competition among Japanese shipbuilders and further cuts in vessel prices.

Shipbuilding volume has also been firm in fiscal 1994. However, because fiscal 1994 construction consisted mainly of orders for low-priced vessels from the 1992-1993 period, sales and profits have declined substantially.

The vessels that will be built in fiscal 1995 were ordered at even lower prices, so further reductions in profitability will be unavoidable. Extremely tight fiscal 1995 earnings are forecast for the shipbuilding sector. Shipbuilders have indicated that cost-cutting is the priority issue for the present and, along with efforts to improve production capacity and slash domestic materials costs, expanded overseas materials procurement, reduction of general administrative costs, and other more drastic measures will undoubtedly be required. ■

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State of World Shipping Orders

(Unit: 1,000G/T)

	1990	1991	1992	1993	1994 (Jan.-Sept.)
Japan (Share %)	11,143 (46.3)	8,073 (40.5)	5,208 (40.7)	7,534 (33.3)	8,145 (45.3)
South Korea (Share %)	5,737 (23.8)	5,107 (25.6)	2,213 (17.3)	8,317 (36.7)	3,786 (21.1)
EC (Share %)	3,883 (16.1)	2,889 (14.5)	2,102 (16.4)	3,277 (14.5)	2,353 (13.1)
Others (Share %)	3,302 (13.7)	3,841 (19.3)	3,276 (25.6)	3,517 (15.5)	3,695 (20.6)
Total (Share %)	24,065 (100)	19,910 (100)	12,799 (100)	22,645 100	17,979 (100)

Source: Lloyd's Register of Shipping

Note: Vessels of 100 G/T and more