

Flooded With Ship Orders

September 1995 interim financial results showed that, with each company facing declining freight revenue due to the yen's appreciation and fewer car exports, conditions are not such that any of Japan's five top shipping companies could be described as having enough strength for a recovery in profits. However, sustained by benefits from cost-cutting and other restructuring efforts that have been undertaken for the past few years and a robust tramp market, the five majors recorded a total of ¥6.7 billion in ordinary profits.

By sector, North American liner routes saw profits decline due to falling freight revenue. The margin of losses was reduced through a revamping of cargo consolidation systems and benefits derived from shifting operations abroad to cut costs, along with a conversion to dollar-denominated costs, yielding signs of improved profitability, but they were still unable to overcome the austere situation. On the other hand, although the slump in car shipments to the U.S. had a negative impact on the non-regular liner sector, shipments of grain and raw materials for steel to the reinvigorated Asian and European economies picked up, and favorable market conditions led to rising revenue, enabling all shipping companies to report improved earnings for the term ended in September 1995.

As far as the outlook for 1996 is concerned, the yen's depreciation since the end of last year has been beneficial, but there have been many causes for concern regarding the North American liner routes that are of primary importance to Japan's shipping companies, including incipient signs that the impact of the decelerating U.S. economy will lead to a decline in shipments to North America and rapid reductions in freight tariffs from the middle of last year. The possibility of ambiguous factors, such as apprehension regarding soft markets engendered by excess capacity, has led to expectations that the steamer tramp

sector will also continue to face an inclement business climate on overseas shipping routes.

Faced with these conditions, the liner sector realigned the group structures established at the beginning of the 1990s, based on North American (Asia-North America) and European (Asia-Europe) routes, forming "global alliances," and full implementation of this new system will begin in 1996. This new system is meant to enable the provision of enhanced services through cooperation between different shipping companies in the sectors in which they excel, offering mutual economies of scale, and joint use of terminals and other infrastructure to reduce capital expenditure. The overseas shipping industry hopes that global alliances will be the key to weathering the current continuing harsh business environment.

In 1995, Japan's shipbuilding industry struggled with the strong yen in the first half; however, buoyed by post-summer adjustments for the appreciating yen, it was able to boost order volume and, attaining the 10 million ton mark for the second year running with orders for 10.608 million gross tons of new vessels, shipbuilders have ensured a con-

struction backlog of around two years. Flourishing demand for mid-size and smaller, bulkier construction in response to robust market tramp conditions could be cited as a factor in the high level of orders. In spite of this, however, vessel prices have continued to slump and in 1995 prices fell by an average of around 20% compared to 1994 orders, rendering a price recovery problematical for the present.

Rival South Korean shipyards have completed investment to strengthen equipment capacity and the competition for orders is expected to be even more heated in 1996. Japanese shipbuilders have all continued to step up overseas materials procurement and boost manufacturing capabilities. Expectations are that they will be able to maintain cost competitiveness if the exchange rate stays at its current level (¥105 to the dollar), but to hold out against South Korea, and anticipated future competition from Chinese shipyards, they will need to adopt more far-reaching strategies, such as closer cooperation on production and materials procurement. ■

(Fujiki Akihisa, senior economist)

State of World Shipping Orders

(Unit: 1,000G/T)

	1990	1991	1992	1993	1994
Japan (Share %)	11,143 (46.3)	8,073 (40.5)	5,208 (40.7)	7,534 (33.3)	11,940 (45.7)
South Korea (Share %)	5,737 (23.8)	5,107 (25.7)	2,213 (17.3)	8,317 (36.7)	5,733 (21.9)
EU (Share %)	3,883 (16.1)	2,889 (14.5)	2,102 (16.4)	3,277 (14.5)	3,041 (11.6)
Others (Share %)	3,302 (13.7)	3,841 (19.3)	3,276 (25.6)	3,517 (15.5)	5,426 (20.8)
Total (Share %)	24,065 (100.0)	19,910 (100.0)	12,799 (100.0)	22,645 (100.0)	26,140 (100.0)

Source: Lloyd's Register of Shipping

Note: Vessels of 100 G/T and more