European shipbuilding under continued pressure – almost 90% of all orders in the world market claimed by the Far East in 2003

Unexpectedly strong growth in demand in world shipbuilding gave shipyards in the Far East full order books in 2003. There was high demand for replacements for tankers as a result of the accelerated phasing out of tankers without double hulls decided on by the IMO (International Maritime Organisation). The boom in most shipping markets led to extremely high increases in freight and charter rates and a shortage of tonnage over the year. Investment in ship newbuildings was also stimulated by the prospect of increasing newbuilding prices and favourable financing conditions with low interest rates.

Although demand in world shipbuilding markets has already been very high since 2000, merchant ship newbuilding orders doubled in 2003 compared with the previous year. In 2003, orders were placed for 2,042 vessels totalling approx. 70.0m gt/41.7m cgt (= compensated gross tonnage, the size of a ship weighted with the labour input involved). This record level was comparable only with the height of the tanker boom in 1973.

The winners were mainly South Korean shipyards, accounting for 18.7m cgt, which was their highest level ever and gave them a record share of the world market (44.8%), well ahead of their Japanese and Chinese rivals. The four largest Asian shipbuilding countries including Taiwan accounted for almost 90% of all shipbuilding orders placed worldwide – to the detriment of the European shipbuilding industry. Japanese shipbuilders also registered exceptional growth (+ 57%) in order volume, rising to 11.8m cgt compared with 2002, although their market share at 28.2% was much lower than in the previous two years. Incoming orders at Chinese shipyards almost doubled to 5.2m cgt, corresponding to a market share of 12.6%. In view of the expansion programme that they have announced and partially already begun, Chinese yards may be expected to step up their efforts to attract customers to ensure the utilization of their capacities.

Thanks to the increasing demand also for feeder containerships, German shipyards were able to book numerous orders particularly in the second half of the year totalling 1.3m cgt, corresponding to a market share of 3.1%, putting them fourth in the rankings of shipbuilding countries (and no. 1 in Europe). Germany was trailed by Taiwan (2.2%) and Poland (1.2%) in 5th and 6th place respectively. Incoming orders received by EU shipyards totalled 2.7m cgt (6.5%), above the extremely low level for 2002 but still down on 2000/2001.

It must be doubted whether the extensive orders received by South Korea and China were booked at prices covering costs. By the end of 2002, the low-price strategy of South Korean shipyards had driven newbuilding prices down to an extremely low level, although wage and material costs had risen. Prices for almost all standard ship types picked up only in the second half of 2003 owing to the boom in demand for newbuildings and the ongoing weakness of the US dollar, along with very high cost increases, particularly for steel. The trends in orders, prices and costs continued in the first quarter 2004.

The global shipbuilding industry produced 1,540 vessels totalling 36.1m gt/22.8m cgt in 2003. This was 6.5% up on the previous year on a cgt basis, as well as higher than the previous annual peaks during the tanker boom in the mid-1970s. South Korean shipyards headed the field, delivering 7.2m cgt and gaining a market share of 31.4%, while the Japanese claimed 30.2% of the market with 6.9m cgt, their highest production level since 1977.

The rapidly expanding Chinese shipyards gained further ground, accounting for 2.6m cgt or a share of 11.4%. China has set its sights on becoming the world's leading shipbuilding country by 2015. It intends to achieve this aim particularly by creating new shipyard capacities on a major scale. A start was made in 2003 with the construction of what will be world's largest shipyard complex on the island Changxing near Shanghai.

European shipbuilding companies as a whole fell further behind their Asian counterparts. EU countries accounted for 3.4m cgt, their market share dwindling to 14.9%. Germany continued to lead among the European shipbuilding countries and came fourth globally with a 3.8% share of the world market.

One of the key questions for the future of world shipbuilding is the relationship between shipyards' newbuilding capacities and the newbuilding requirements of the shipping sector. The overcapacities created in the past two decades particularly in South Korea and the aggressive marketing practices to utilize these caused a severe slump in prices and prevented supply adjusting to demand. In view of the capacity expansion now occurring in China, this situation may continue and possibly even deteriorate.

According to the OECD, global merchant ship newbuilding capacities will surge by 14.2% (2.7% annually) from 24.4m cgt in 2002 to 27.9m cgt in 2007. The shipbuilding countries in the Far East will achieve the highest capacity growth.

The OECD expects demand for newbuilding tonnage to be on average approx. 21.1m cgt annually between 2003 and 2005 and 24.1m cgt annually between 2006 and 2010 owing to the phase out deadline for tankers without double hulls in 2010. A lower requirement of 22.3m cgt is forecast for the following five-year period. Overcapacities would then come to approx. 14% compared with production in 2002 and would increase to approx. 16% by 2007.

In view of the capacity growth anticipated by the OECD up to 2007, there is no justification for the fear occasionally expressed by shipping companies and shipbrokers that capacities might not suffice to meet demand for merchant vessel replacements. The demand peaks resulting from the earlier phasing out of obsolete single-hulled tankers can also be handled with existing capacities. However, the overcapacities may continue to depress newbuilding prices.

Further details on the world shipbuilding market are given in our annual report for 2003. You can request this from us or find it at our website: http://www.vsm.de

If you have any queries, please contact:

Verband für Schiffbau und Meerestechnik e. V.
(German Shipbuilding and Ocean Industries Association)
An der Alster 1
20099 Hamburg
Tel: (040) 280152-0
Fax: (040) 280152-30
E-mail: info@vsm.de

May 19th 2004