Korean Shipping messenger

A collection of articles and daily news for the shipping industry with focus on the Korean shipping and shipbuilding markets.

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Shipbuilding News

In China, shipbuilders languish after bubble bursts

A building binge fueled by boom times has led to a glut of ships as China's economy slows down. China's expansion of the sector has only compounded the problem.

A shipbuilding boom raised the fortunes of this hardscrabble industrial port. Five-star hotels sprouted along with machinery depots and metal shops. European luxury cars darted past heavy trucks on the bustling streets.

But in another sign of China's economic slowdown, shipyards are now closing and half-finished vessels lie rusting in the humid haze. Prosperity is receding like the tide.

Thousands of laborers have lost their jobs. Liu Danyin, a compact man with bulging forearms, found so much work in the region's shipyards over the last decade that he built a new home for his family hundreds of miles away in the countryside. Then he was laid off suddenly last year.

"Many companies collapsed," said Liu, 48, who recently took a lower-paying job building a sea bridge. "There used to be so much energy and life here. Now they don't build ships anymore."

The hard times that have befallen Yueqing, a county in the eastern province of Zhejiang, are playing out at shipbuilding bases across China, from the northern port of Qingdao to the silt-filled Yangtze River in the central heartlands.

The bellwether industry's troubles have their roots in a shipping boom that started a decade ago. Global investors rushed to finance new vessels needed to haul coal and copper toChina'shumming factories and to transport finished electronics, toys and other exports out. China went from producing just over 100 vessels in 2002 to more than 1,000 in 2010, according to Worldyards, a Singaporean-based shipping industry research firm.

That over-exuberance resulted in a glut of ships. It's a problem that has worsened as China'seconomy has decelerated along with that of its major trading partners — Europe and the United States. Fewer customers for Chinese exports and a shrinking appetite at home for raw materials mean fewer vessels needed to carry that cargo.

Ship values have plummeted and many owners now owe more on their loans than their boats are worth. And all that capacity is putting downward pressure on shipping rates as Chinese transport companies seek new markets abroad to keep their vessels working.

"The building binge was overwhelming," said Ralph Leszczynski, the Beijing-based head of research at ship broker Banchero Costa & Co. "People earned so much money they didn't know what to do with it. The Chinese started opening shipyards every day. But it created a bubble. Now everyone is paying for the hangover."

Shipbuilding is typically a cyclical industry nagged by overcapacity every few years. But experts say this trough is being prolonged by the scope ofChina'sseafaring expansion.

Under central government guidance, China poured money into developing its shipbuilding and maritime logistics sectors, deeming them crucial for the nation's development.

China is home to six of the world's 10 busiest ports, including Shanghai, which is No. 1. The state-owned China Ocean Shipping Co. operates the globe's largest fleet of bulk carriers and fifth-largest fleet of container ships. China also dominates the manufacturing of cargo containers.

And it has edged out South Korea to become the world's largest shipbuilder. China commands nearly half the globe's market share for shipbuilding — more than five times the share it held 10 years ago, according to Worldyards.

China said this year that it aimed to nearly double its annual ship sales to $190 billion by 2015. The plan also calls for industrywide consolidation that will benefit big government-owned players such as China State Shipbuilding Corp. and China Shipbuilding Industry Corp., which combined to produce about one-third of the nation's shipping output last year.

"With shipbuilding it is fair to say that China has been obsessed with maintaining or increasing its market share, even if the result is that there are too many ships chasing too few cargoes," said Simon Bennett, a spokesman for the London-based International Chamber of Shipping.

ButChina'sgrowth has hit a wall. The China Assn. of the National Shipbuilding Industry reported Chinese ship orders declined 47% to 9.54 million deadweight tons the first five months of this year from the same period last year. Meanwhile, ship exports slumped 48% from a year ago to 6.84 million deadweight tons (a measure of the maximum weight a ship can carry).

Small and medium-size shipbuilders such as those that crowd the Yueqing coast have been hit the hardest. Some may have to destroy their ships to sell as scrap. Others have already chosen to get into the logistics business to recoup whatever losses they can. Among them, none has fallen further than Dongfang Shipbuilding Group.

The family-run shipper and manufacturer of mostly chemical tankers for European and Chinese customers was flying high last August. That's when it became the first Chinese shipbuilder to list on the London Stock Exchange's Alternative Investment Market, a venue for smaller companies.

But within months, Dongfang's position deteriorated. Customers canceled $52.6 million in ship orders. An additional $14.5 million in contracts were voided when buyers failed to provide advance payments, according to stock exchange filings.

Dongfang's chief operating officer and the chairman of its board resigned. Its shares in London were suspended in March. In early June, a consortium of banks, including Credit Suisse, seized seven of its vessels because of about $250 million in outstanding debt.

Today, Dongfang's Yueqing shipyard remains largely abandoned. Its three burnt orange gantry cranes stand idle over a pair of unfinished tankers covered in scaffolding. Chen Tongkao, the company's chief executive, hasn't been heard from publicly in months and is suspected of fleeing the country. Dongfang did not respond to repeated requests for comment.
"Bosses are running away," said Zhang Shuguang, a nearby manufacturer of ship rudders and propellers who has seen his orders reduced to a trickle in the last year. "Costs are so high and profits are so little. I don't think anyone wants to be in this business anymore."

China Shipbuilding Industry on Downward Slide

China's first half 2012 shipyard figures make grim reading & the national shipbuilding association warns little chance of help from Beijing.

In the first half, newly received order volume in China were 10.74m tons, sharply down 50.3% year-on-year.

Till the end of June 2012, orders on hand stood at 125.87m tons, a decrease of 30.7% year-on year.

The equipment division of the Ministry of Industry and Information estimated many yards may will run out of work during the second half of 2012.

"The shipbuilding industry is getting worse. Beijing has not released any new specific supporting measures for the industry yet," an official from the national shipbuilding association said.

Despite fevered speculation Beijing has yet to announce any stimulus measures to combat a slowdown in the economy.

Shanghai Zhenhua to continue global growth

Officials at China's top machinery maker are confident that the continued diversification of its portfolio, aimed at producing high-caliber products at the lowest possible price, will ensure it maintains a powerful position in the global market, despite a decrease in international demand for shipbuilding and major infrastructure projects.

As the main components for its latest high-profile project, Norway's Hardanger Bridge, eased their way out of port in Shanghai on Wednesday, Shanghai Zhenhua Heavy Industries Co Ltd, formally known as Shanghai Zhenhua Port Machinery Co Ltd, insisted it feels well-positioned to weather the current choppy economic waters and wrestle market share away from under-pressure competitors.

The steel structures for the main body of the bridge, heading for Scandinavia, mark the company's first venture into Europe in steel bridge-making. They mark the latest step in a global expansion that involved 82 countries and regions this year, it said.

Hardanger is a suspension bridge that will have one of the longest spans in the world after it replaces a ferry connection for long-distance travel and transport in Southwest Norway.

Helge Eidsnes, regional road manager of the Norwegian Public Roads Administration, said he was fully confident that what are complicated requirements - for Norway's longest bridge - will be met by the Chinese contractor, on-time and on-budget.

Shanghai Zhenhua Heavy Industries is considered the largest heavy equipment manufacturer in the world, and has in the past five years expanded into producing a wider range of industrial machinery - including heavy cranes, offshore engineering ships and large steel parts - on top of the traditional port equipment with which it dominates the world market.

It's that diversification, in reaction to an economic slowdown that has slashed global demand for shipbuilding, and its ability to cash in on other overseas infrastructure works, including bridges and offshore machinery, that has played the main role in its success, said Tan Guangren, the company's public relations officer.

Its most recent annual report showed that in 2011, Shanghai Zhenhua Heavy Industries signed $4 billion worth of manufacturing contracts, 80 percent of which came from advanced economies in Europe, America and Asia.

Despite ongoing global economic turmoil, the company registered a net profit of $30 million yuan ($4.7 million) after seeing a severe loss in 2010, whereas most of its competitors were firmly in the red.

More than 60 percent of its revenues generated last year were attributable to overseas deliveries.

According to Tan, the ability to combine high-caliber products with lower prices is also important in combating the ongoing recession in the West.

"International buyers approach us because they know of our reputation for sound, cost-effective products," he said.

Apart from the Norway project, the company has just kicked off one for a bridge project in Scotland, which involves 111 steel box beams and various other steel structures and is due for delivery in September 2014.

Industry insiders say that Chinese heavy machinery makers may quickly catch up with their rivals in South

Korea and Singapore, as the industry moves away from technology and manufacturing and toward being more about project operation and management, leaving companies that are willing to diversify, such as ZMPC, perfectly positioned to continue to expand.

Shipping & Business News

Maersk CEO sees better outlook for container shipping arm

The head of Danish shipping and oil group A.P. Moller-Maersk said the performance of its container shipping arm had been disappointing but the group's strategy was paying off and the business should be better positioned a year from now.
Maersk, which operates the world's biggest container shipping company Maersk Line, has been hit by losses in container shipping, as the global shipping market is now into a fourth year of a slump, though freight rates have risen this year, which analysts say has created prospects of a turnaround.

"Although we are not as well positioned as we hoped to be a year ago, the early signs are positive and I am optimistic that Maersk Line will be in a much stronger position in a year's time," Chief Executive Nils Smedegaard Andersen said in the company magazine Maersk Post, published on Friday.

He said the development in container freight rates and profitability for Maersk Line had been disappointing, but the company was working to restore rates to sustainable levels.

Maersk updated its strategy in August last year to focus on four core business areas: container shipping, oil and gas production, oil services and ports operations.

The group is also seeking to expand in emerging markets.

"In spite of the difficult short and medium-term outlook for world markets, I am convinced that our clear strategy and strong and consistent execution will enable us to strengthen our foundation and enable us to increase the Group's results over the coming years," Andersen said.

Since the launch of the updated strategy last August, the group has invested $12.23 billion in its four core businesses, with the most - $4.75 billion - going into its oil services business which includes oil rigs, drillships and offshore supply vessels, Maersk Post said.

The second biggest slice - $3.98 billion - has gone to the oil and gas business, with Maersk Line getting $1.90 billion and the ports arm APM Terminals $1.61 billion, the magazine said.

Andersen said Maersk Line now needs to squeeze out the last unnecessary costs and work to restore rates by expanding its fleet only as fast as the market.

A.P. Moller-Maersk, which is scheduled to report first-half results on August 14, has forecast a profit for 2012 slightly lower than the $3.4 billion it made in 2011, and a "negative up to neutral" result for Maersk Line this year.

Some analysts have said that recent freight rate increases could lead the group to upgrade guidance for Maersk Line.

Shares in A.P. Moller-Maersk were down 0.2 percent by 1206 GMT, against a 0.8 percent rise in the Copenhagen bourse's benchmark index .OMXC20.

HSBC to sell ship consultancy arm to management team

HSBC Bank said on Thursday it had reached a deal to sell HSBC Shipping Services Ltd to the ship broking and consultancy unit's management team.

HSBC has been pulling back from unprofitable markets and businesses as part of a three-year recovery plan. It has already sold 28 businesses and cut 15,000 staff from its payroll.

"The sale represents further progress in the implementation of the HSBC Group's strategy and is expected to complete in the fourth quarter of 2012," the bank said, adding the group would continue to provide a full range of banking products and services to the shipping industry.

The sale price of the deal was not disclosed.

HSBC Shipping Services, which will be renamed Hartland Shipping Services Ltd, will subsequently provide shipping-related valuation and consultancy services to the HSBC Group on a global basis.

A shipping slump and growing global economic turmoil have compelled many banks to scale back exposure to heavy industries.

In June, German bank Commerzbank said it would wind up its ship finance and commercial real estate units as stricter liquidity requirements force it to cut back on capital intensive activities.

Global Containerized Shipping and Logistics Industry Market Research Report Now Available from IBISWorld

After years of easy growth, life became more difficult for operators in the industry in the second half of 2008. A crisis that began in the US housing market spread into a global recession, severely affecting world GDP. As a result, demand for merchandise imports and exports went into free fall while international seaborne trade volumes decreased. Conditions will eventually improve for the industry over the next five years. However, the much-anticipated upswing may not occur early enough to save some players in the freight segments. The bright spot in the industry will continue to be the cruise market in the short term. In the long term, IBISWorld expects that globalization will continue and the world economy will recover. For these reasons, industry research firm IBISWorld has added a report on the Global Containerized

Shipping and Logistics industry to its growing industry report collection.

The Global Containerized Shipping and Logistics industry has spent the past two years at a major crossroads, where years of rapid growth appear to be at an end and future demand is contingent on ongoing economic recovery. According to IBISWorld industry analyst Caroline Finch, industry revenue is estimated to increase from $151 billion in 2007 to $155.5 billion in 2012, representing a 0.6% annualized increase, including 0.1% expected for 2012. In contrast, industry revenue grew an annualized 11.5% in the five years through 2007.

The difference in growth rates captures the extreme change of circumstances between 2008 and 2009. “During this period, major companies placed ambitious orders for new ships as they struggled to build their capacity to meet demand,” says Finch. “Once the demand fell away, shipping lines cut routes and staff, and many pulled some of their fleet out of the water to remain viable during the downturn.” During 2009, as much as 10.0% of the world's container shipping fleet was not in active service. Industry revenue fell 17.0% for the year. After a rebound in 2010, uncertain economic conditions have encouraged low inventory levels on the part of the industry's clients. This leaves the industry with far more capacity than is required to meet demand. It is estimated that there are more than 10,100 shipping companies in the world, though most are small local operators. Beyond the major players, the market is highly fragmented with a large number of small regional players or family-owned operations, especially in the coastal and inland water transport segments. The Global Containerized Shipping and Logistics industry’s medium level of concentration is attributable to the vast number of markets that the industry covers. This is a sign that economies of scope and scale exist in the market and that major players have to be truly global to be competitive. Current major companies include AP Moller-Maersk, Carnival Corporation, Nippon Yusen Kabushiki Kaisha, Hapag-Lloyd AG and Mitsui OSK Lines Ltd.

Overcapacity is the only certainty the industry faces in the coming years. The industry is dependent on strong global growth and continuing globalization to grow. The threat of a collapse in the Eurozone or a double-dip global recession remains real. On the other side of the equation, the imbalance of supply of ships to demand for shipping services will take longer to resolve. Segments of the industry, such as container shipping, are engaged in a race to build the biggest ship. The operator with the biggest ship captures the lowest cost structure and competitive advantage. However, the cumulative action has driven freight rates down and is expected to keep them there. For more information, visit IBISWorld’s Global Containerized Shipping and Logistics industry report page.

Establishments in this industry provide deep sea, coastal and inland water transport. Deep sea and coastal water transport includes the transport of passengers and freight over water, both scheduled and unscheduled. The inland water transport segment includes the movement of passengers or freight via rivers, canals, lakes and waterways, including inside harbors and docks. The industry excludes marine operations such as port operations and stevedoring.

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The Exxon Valdez’s Eco-Friendly Afterlife

At some point before the weekend, the ship once known as the Exxon Valdez will come to its final resting place on an oil-stained beach in Alang, India, where it’ll be recycled in the world’s largest and most notorious shipbreaking yard.

Environmentalists inside and outside of India are outraged. The Valdez -- now renamed (I am not making this up) the Oriental Nicety -- like almost all ships scrapped in India, is filled with hazardous substances including asbestos and PCB-laden oils. Under Indian law and international treaties to which India is party, that should render it illegal to import. And yet, not only is it being imported, it’s one of hundreds of ships that are brought into Alang every year for recycling. Despite an order from the Indian Supreme Court on this week requiring that the Valdez be the last such ship imported into India, nobody -- except, perhaps, anti-shipbreaking activists outside of India -- believes that’s going to happen.

The reason is simple: India’s growing economy requires growing volumes of steel, and shipbreaking is one of the easiest, cheapest and arguably greenest means of getting it. Depending on economic conditions, shipbreaking supplies India with 8 percent of its annual steel supply. It has become such a key part of India’s steel industry that India’s steel prices are known to move on the basis of just how many ships are being dismantled on Alang’s beaches.

Environmental crackdowns drive the price up; a slow shipping season usually means bankrupt shipping companies, more ships to break, and falling prices.
The Oriental Nicety, which spilled millions of gallons of oil into Alaskan waters in 1989, is the kind of ship that Alang loves. It's big, with large empty spaces in which laborers can work, cutting it apart. The Indian press reports that the ship was purchased for US$16 million (a rumor very much in line with current market prices), with the purchaser assuming, via industry standard, that at least 70 percent of the 200,000-plus metric tons of ship would be steel. By those numbers, a rough back of the envelope calculation suggests a purchase price of around US$115 per ton.

In Alang, that steel is liberated by teams of low-cost laborers who work day and night with torches, winches and ropes to pull large pieces of steel to the beach below. There, they'll be reduced to arm-sized pieces and sold to so-called "re-rolling" mills where they're heated and literally rolled into the steel rods and bars used for re-enforcing structures ranging from buildings to bridges to roads. It's a highly efficient process: by Christmas, most of the former Valdez's hull should be helping to hold up buildings in India's booming Gujarat state. It's also highly profitable: According to two Alang traders with whom I spoke today, the current price of re-rolled steel is around US$400 per ton.

The environmental community likes to avoid the term "recycling" when it talks about places like Alang. But that doesn't mean there aren't very strong green arguments in favor of them. Of these, the most compelling has to do with energy savings. On average, the manufacture of recycled steel requires 74 percent less energy than the manufacture of new steel from virgin ores dug from mines. Because re-rolled steel doesn't need to be remelted in a furnace, the energy savings are even more significant (though no figures or studies support that suggestion). For India, such savings means that an already overtaxed power grid can be devoted to providing electricity to poor people rather than steel mills, and valuable open space can be conserved rather than dug up for new iron-ore mines.

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