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

Sungdong pens cape for $50m

Greece's Polembros Shipping is said to have ordered a pair of capesize bulkers at Sungdong Shipbuilding & Marine Engineering in South Korea.

Notably, the owner is reportedly paying just $50m each for the 180,000-dwt newbuildings with a 70% deposit.

The value represents a further fall in capesize newbuilding prices.

The Greek owner, which has traditionally made its name trading older secondhand tonnage, appears to have been tempted to step up the renewal of its ageing dry-bulk fleet by a new low in prices.

Foreign media reports the owner is believed to be paying as little as $50m each for two capesizes after agreeing to pay most of the contract price upfront.

Informed sources say Tongyeong-based Sungdong is scheduled to deliver the ships from the second quarter of 2011.

A number of recent capesize orders have been secured at around $55m to $58m per ship based on standard financing terms of five scheduled down payments, each of 20%.

But Sungdong is believed to have accepted a lower price after Polembros agreed to a top-heavy down payment of at least 70% of the contract price.

Market players say Sungdong has secured a decent deal from Polembros amidst the lull in the shipbuilding market.

In contrast, Polembros paid $80m each for a pair of 175,000-dwt capesizes ordered during the shipbuilding boom in mid-2008 from China's Jiangsu Eastern Heavy Industry. They are slated for delivery in September 2012 and April 2013.

Price war inevitable

Nowadays, Chinese shipbuilding industry is experiencing toughest time ever.

China's Jiangsu Rongsheng Heavy Industries Group sold 12 very large ore carriers to Companhia Vale do Rio Doce in July of 2008, at the price of $140m per unit. One year later, the price dived at $120m. Later it further slumped at $110m in November of 2009.

That seems not optimistic. "Price war will be triggered any time", said Mr Liang Yong, the analyst of China Shipbuilding Information Centre. Liang's words are typical in China. In his opinion, the price has already been in downward trend but not reached the bottom.

In 2010, everything will be changed. Now the global economy is recovering, as well as demands for ships. Meanwhile, the shipyards will consider in long-term when their order book seems pessimistic. "So, price war will be inevitable in 2010", Liang said.

Then, will price slumping cut down profit margin? How can builders afford it?

The good news for shipbuilders is that the material price is decreasing as well. For example, the price of steel plate, which takes15%-20% of the cost, dived from CNY 8,000 ($1,176) per ton to CNY 4,000 per ton. That leaves partial profit margin for builders.

In Korea, the profit rate rose by 10% in the 4th quarter of 2009 but the number of orders was decreasing. That means gross profit was shrinking as well.

In China, the situation is more severe. Mr Yang, from Yangfan Group, said compared to Korean, Chinese shipyards were weaker in efficiency, technology and ship equipment aspects. The cost control was not their advantage, either.

"In 2010, we will have tough time", said Mr Liang. His words show a bit of pessimism.

In 2010, the competitions will become cut-throat, especially from rivals.

Taiwanese orders 37K bulkers at STX

Taiwan's Unison Marine Corp has emerged as the mystery shipowner behind an order for two handysize bulkers at STX Offshore & Shipbuilding in South Korea.

A source close to the Taiwanese firm confirms the company has inked two 37,000-dwt handysizes at the South Korean yard.

The shipbuilder announced on December 21st 2009 that it had signed a contract with an Asian shipowner to build two 37,000-dwt bulkers.

The source does not disclose the price of the newbuildings but industry players put it at around $27m each.

The ships are scheduled to be delivered by the end of 2011 after being constructed at STX's Jinhae Shipyard located in South Korea.

They will have a length of 189 m and a breadth of 30 m with a cruising speed of 14.1 knots, the yard said.

Market observers say the newbuildings will be the first handysizes to be built there. The Jinhae facility is primarily used to construct large ships and value-added tonnage such as offshore vessels and LNG carriers.

Unison Marine is based in Taipei and owns a fleet of eight ships comprising tweendeckers, log carriers and bulkers. They range in size from 15,800 dwt to 35,300 dwt.

Sungdong lands 75K tanker

Betonix Ltd, a privately-owned property developer based in Mauritius, is entering shipping business after ordering a long-range-one (LR1) product tanker at Sungdong Shipbuilding & Marine Engineering in South Korea.

Betonix managing director Veekram Bhunjun confirmed his company is diversifying into shipping and has contracted the 75,000-dwt vessel on the back of a contract of affreightment (COA).

"We secured a COA from our government to transport petroleum products into Mauritius," said Bhunjun.

"We would like to be more active in shipping," said Bhujun. "We hope 2010 will open more opportunity for our company in the shipping business."

Market sources say the order did not take place overnight. "Betonix approached a few South Korean yards early last year," said an industry player. "It made a verbal agreement with Sungdong some time ago but it firmed up the contract recently when the Mauritius government officially awarded it the COA."

Sources say Betonix is paying over $50m for the tanker which is scheduled to be delivered in June 2011.

Sungdong has been one of the more active South Korean shipbuilders in the past year. The shipbuilder, which was established in 2004, delivered 26 vessels last year and is targeting to complete 35 newbuildings this year.

Hanjin union declares general strike

With the compulsory layoff program being implemented by Hanjin Heavy Industries & Construction after its voluntary layoff program fell short of its target, all members of the labor union at Hanjin announced their determination to go out on a general strike Friday. At this point, things are getting too ugly to reverse.

Unlike the argument of the management that both executives and employees are returning their pays voluntarily, the employees are, in fact, being forced to return their pays under the condition of sustained employment. Union members strongly contend that dismissing workers due to the present business plight is simply absurd.

Last December Hanjin advised 2,500 workers at the shipbuilding division to resign and among them 350 workers applied for resignation. Hanjin accepted the resignation, which is the first of its kind among large shipbuilding companies in South Korea.
The management will pay six to fifteen month salaries to the voluntary retirees based on the remaining years to the retirement age and long-service years, which can be seen as an ostensible severance package.

But the number of the voluntary retirees fell short of Hanjin's initial target of 750 (equivalent to 30% of the shipbuilding workforce). So the company is planning on an additional compulsory restructuring and will decide on who will be the subject to the layoff and how big it will be by this month.

Union members and employees alike are intensely opposing the layoff scheme.

Daewoo Shipbuilding Gets $400 Million Offshore Plant Order

South Korea's Daewoo Shipbuilding & Marine Engineering Co. said Friday it has received a $400 million order to build an offshore plant for Exxon Mobil Corp.

A spokesman at the world's second-largest shipbuilder by value of orders said the plant will be used in a Russian oil and gas block development and has to be delivered in 2013.

Difficulties go on in 2010

The year 2010 began with widespread economic optimism, with most of South Korea's major industrial sectors expecting continued improvement in business conditions. Shipyards, however, are bracing for another year of hardship as overcapacity continues to plague the global shipbuilding industry, with new orders scarce and ship financing still difficult, experts and industry officials said.

"The economy is set to continue recovering in 2010, but the shipbuilding sector is likely to be in a slump for a considerable time, stemming from global overcapacity and weakness in the shipbuilding financing market," Min Keh-sik, vice chairman & CEO of Hyundai Heavy Industries said in his New Year address.

"It will be another challenging year," he said.

The world's largest shipbuilder had suffered a 96 percent drop in new orders in 2009. It received orders for 10 vessels, worth $440 million, which is a sharp contrast to the previous year's 109 vessels, and a combined value of $13.6 billion.

Total orders received in 2009, including offshore platforms and other products, amounted to $10.6bn, the company said on a Dec. 31 filing.
The Ulsan-based firm has set a 2010 target at $17.7 billion in total orders.

Daewoo Shipbuilding & Marine Engineering, the world's third-largest shipbuilder, said that it aims to win $10 billion worth of orders this year.

Nam Sang-tae, the company's CEO, stressed a focus on developing a new revenue source, as the market for container ships continues to be in a slump.

"In order to survive, we need to develop new, high-value products that combine technologies for offshore platforms and conventional vessels," he said.

South Korea's three shipbuilding giants -- Hyundai Heavy, Samsung Heavy Industries and Daewoo Shipbuilding -- may be in better shape, compared to smaller players.

Thanks to past efforts to diversify revenue sources, the trio has relatively bigger presence in areas that are less affected by the slump, such as offshore platforms, analysts said.

The market for bulk carriers, oil tankers and container ships is in a sharp downturn with major shipping lines such as CMA CGM SA and China Ocean Shipping Group Co. canceling orders and seeking delays in delivery, after global economic recession cut maritime trade.

In an indication of the challenge facing smaller yards, Hanjin Heavy Industries and Construction, the nation's fifth largest shipbuilder, said that it will slash its shipbuilding labor force by at least 30 percent.

The Korea Institute for Industrial Economics & Trade forecast in its recent report that the country's shipbuilding volume this year will drop 10.7 percent in 2010, from a year earlier.

"Exports (of ships) will likely drop 6.2 percent to be valued at $46 billion," the institute said.

As of Dec. 1, order backlogs at South Korean yards stood at 53.76 million CGT, or compensated gross tons, according to Clarkson, the world's largest ship broker. That accounted for 34.3 percent of the global market.

Home to seven out of the world's top 10 shipbuilders, South Korea once dominated the global market. But, China wrestled the title of the world's No. 1 shipbuilding nation from the country last year. Chinese yards have a combined order backlog of 54.67 million CGT and a market share of 34.9 percent, the Clarkson data showed.

Good start "Dry bulk"

Demand from China will ensure the dry bulk market has a healthy start to 2010, analysts claim.

Steel mills in the world’s industrial powerhouse are expected to launch another round of stockpiling, the boss of the Asian wing of Drewry Maritime Services said.

The mills will increase their inventories to soften an expected blow from higher prices caused by the latest round of iron ore price talks, the analyst said.

Chinese mills have in recent years attempted to shield themselves from market fluctuations by purchasing large amounts of supplies.

Divay Goel, head of Asia Operations, Drewry Maritime Services, said another round of stockpiling would ensure that dry bulk shipping players would benefit from a boost in rates in the early part of 2010.

Idle boxships reach 581

The number of containerships that are left standing by at sea while awaiting projects is still growing. According to a survey conducted by the France-based maritime consultant AXS-Alphaliner, 581 containerships of 1.51 million TEUs were laid up as of Jan. 4 this year, including nine above-7,500-TEU large-size containerships. In terms of capacity, the volume of boxships on standby continues to exceed the 1.5 million TEU level.

The growth in the number of containerships put on hold at sea while awaiting transport projects was brought about by the adjustment in capacity implemented by operators corresponding to the winter off-peak period. For instance, the CKYH Group (COSCO Container Lines, Kawasaki Kisen Kaisha, Yangming Marine Transport and Hanjin Shipping) has been carrying out winter rationalization measures in the Asia-North America trade.

By downsizing the ships deployed in the trade and suspending services on certain weeks, the alliance aims to optimize the space scale corresponding to drop in cargo traffic. This will be equivalent to an approximately 10%

reduction in space in the North America West Coast services and about 20% contraction in space in the East Coast segment.

Further, the percentage of laid up containerships reaches 11.6% of the entire global containership fleet in terms of capacity. With looking into the breakdown, the number of operator-affiliated boxships in standby account for 6.5%, while the owner-affiliated ones account for 5.1%. The volume of owner-affiliated containerships that have been put on hold grew to 666,800 TEUs from the 637,700 TEUs recorded two weeks earlier.

2009 boxship deliveries total 268

French maritime consultant AXS-Alphaliner has recently disclosed the results of its survey on the global liner fleet in 2009.

According to its report, 268 containerships were completed in 2009, with the total capacity reaching 1.07 million TEUs. Two 1,060-TEU containership newbuildings were ordered during the period under review.

Meanwhile, 207 containerships of 381,169 TEUs have been pulled out from the market. Of this number, 204 units of 378,656 are believed to have been scrapped, while three of 2,513 TEUs have not yet been verified or have been changed to other ship types.

As a result, the global containership fleet reached 4,718 units of 13,057,000 TEUs as of Jan. 1 2010. This represents a 5.6% year-on-year growth.

Pacific key to box sector recovery

Growth is forecast to return to the main east-west container trade lanes this year, but actual volumes will still be way down from the bumper numbers of 2007 after two years of contraction that has brought many owners and operators to the brink of bankruptcy, foreign media reports.

Immediate prospects for container shipping remain very uncertain and hinge to a great extent on the outcome of transpacific contract negotiations, Drewry Shipping Consultants predicts in its latest market review.

“The fact that container freight rates on many routes are rising should not fool us into thinking that there is a full-scale recovery going on,” the firm warns.

“This year will continue to be a very challenging one for all major stakeholders, even if we appear to have seen off the worst of this awful trade trough.”

Drewry is forecasting modest expansion in container traffic this year of 3%-4%, with the industry having passed through the worst of the recession.

The eastbound Pacific trade is projected to grow by 3.5% in 2010, but that follows a drop of almost 16% last year and a 7.1% decline in 2008. The downturn on the Pacific began as early as 2007.

In the Asia to Europe trade, Drewry expects volumes to increase by 3.1% this year after shrinking 14.6% in 2009 and 0.3% in 2008 at the start of the reversal on that route.

Deutsche Schiffsbank breaks even

Deutsche Schiffsbank expects to achieve its forecast of breaking even in 2009, foreign media reports.

However, it will not make coupon payments to holders of profit participation certificates for last year as that would result in a balance sheet loss.

The three certificates affected had expected coupon payments of between 4.7% and 6.8%.

The certificates are a type of mezzanine finance and investors are subordinate creditors when insolvency occurs.

The final decision about the move is subject to supervisory board approval. The board is scheduled to report on its 2009 results on May 6. However, figures may emerge earlier, when majority shareholder Commerzbank holds its annual conference in February.

HSH Nordbank undertook a similar move when it told investors late last year that it would not pay interest on profit participation certificates and other forms of hybrid capital. Some investors, among them a number of insurers, were caught red-handed by the decision.

In the past, many banks made coupon payments even when generating a loss. However, the European Commission has demanded that investors contribute to the rescue operation of public-law banks by not taking interest payments.

Bangladesh top breaker

Bangladesh retained its top spot as the largest shipbreaking nation in 2009 as it bought up more tonnage than any other country, foreign media reports.

Demolition activity in Bangladesh reached 9.9m dwt during 2009, a 40% rise on 2008 figures, and was equivalent to 177 vessels, according to the latest data from Greece’s Allied Shipbroking.

India came a close second with scrapping volumes of 9.4m dwt last year, which was triple the amount of tonnage the nation recycled in 2008.

Although it scrapped more than double the number of vessels Bangladesh did, at 393, it bought a large number of smaller bulk carrier units which brought its dwt count down.

By comparison, Bangladesh recycled a greater number of large tankers, pushing up the volume of dwt tonnage scrapped.

China maintained its third place, scrapping 112 vessels, totalling 4m dwt, while Pakistan lagged behind in fourth place with 77 ships of 2.7m dwt.

Overall last year 890 ships were sold for recycling worldwide, totalling 28.9m dwt, reaching a 10-year high in terms of dwt scrapped. By comparison, around 30.1m dwt was sold for demolition in 1999.

Data from rival shipbroker Clarksons puts total 2009 figures slightly higher, at 939 vessels of 29.3m dwt.

These figures are still shy of the 1,000 ships GMS president Anil Sharma predicted in February 2009 would be scrapped during the course of the year.

By late October, though, he told a conference that despite “huge” demolition volumes at the start of 2009, demand had slowed as the dry bulk spot market picked up in the second half of the year, with more owners opting to make money out of their vessels rather than selling them for scrap.

Total dry bulk demolition sales for 2009 came in at 404 ships of 12.3m dwt, Allied data showed, although figures from earlier in the year showed that these sales had slowed.

In early June Allied reported that 244 vessels of 8.4m dwt had been scrapped in the first half of 2009, meaning that in terms of tonnage the volume of dry bulk carriers recycled in the second half had dropped by around 50%.

By comparison, the record amount of dry bulk tonnage scrapped was in 1998, when 471 ships of 16.1m dwt were sold.

Demolition sales of tankers picked up over the course of last year, with Allied data showing that in the second half of 2009 volumes more than tripled from 46 vessels of 2.6m dwt to 159 tankers totalling 9.3m dwt by the end of the year.

London broker Simpson Spence & Young said in its December report that the rise in tanker breaking was due to greater disposals of very large crude carriers and suezmaxes. Of the 11 VLCCs sold for demolition in 2009, 10 were sent for scrap in the second half of the year.

Many industry insiders are anticipating further increases in tanker scrapping this year due to the phase-out of single-hull tankers. With the crude tanker and product tanker markets suffering from negative returns over 2009, owners are not expected to keep ships that are no longer able to trade worldwide and sell many for scrap instead.

With around 800 single-hull tankers remaining in the fleet, this could lead to increased total scrapping volumes this year.

Germanischer Lloyd head of ship recycling Henning Gramman forecast three months ago that around 2,000 ships could be recycled in 2010.
Whether the world’s shipbreaking yards can cope with these volumes has been questioned, however.

Bangladesh limits scrapping zone

The government has tasked a technical committee to start work on establishing an official shipbreaking zone along Bangladesh's coast, following the prime minister's recent call for long overdue regulation of the hazardous industry.

The government will not allot any more land for shipbreaking yards until the new zone is set up, state minister for environment and forests Hasan Mahmud said.

The move comes in the wake of renewed concerns for worker safety, following a number of deaths at shipbreaking yards, and continued environmental worries over the industry. Mahmud said the committee will formulate separate rules and regulations for the shipbreaking and reprocessing industries, located mainly in the coastal districts of Sitakunda and Chittagong.

The High Court issued an eight-point directive last March, which includes neutralising scrap ships before bringing them to the Bangladesh coast, environmental certificication by shipbreaking yards, informing the Supreme Court every month of how many scrap ships are arriving at the ports, and how much wastage they contain.

Following the direction, the ministry constituted a 17-member committee, with the environment and forests secretary as its head, to take actions against the unauthorised and polluting shipbreakers.