



# 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

### Recovery of new orders to drag

Newbuilding market, which showed flash recovery recently with a number of new orders, seems to have a long way to substantial recovery due to still lasting oversupply problem.

Song Jae-hak, analyst from Seoul-based Woori Investment & Securities said, "Recent increase in freight rates in shipping industry had positive effects on shipbuilding industry, however, oversupply and weak ship price problems are continuing."

"Hence, investment in heavy industries companies with strength in non-shipbuilding businesses like offshore and onshore plants will be profitable," he added.

"Global newbuilding ordering activity has been gaining momentum of late, but ship prices showed a further decrease, which signal bargain price competition is ongoing," said Mr Song.

Clarkson Newbuilding Price Index fell by one point on January 15th from a week earlier, to 136 points.

In contrast, secondhand ship prices showed stability with five-year-old 300,000-dwt VLCC price standing at \$80m and same-age 170,000-dwt capesize bulker price at \$55m as of January 15th.

### STX-Abu Dhabi co-op for shipbuilding

South Korea's STX Offshore & Shipbuilding said on January 19th that it has signed a memorandum of understanding with Abu Dhabi Shipbuilding (ADSB) for co-operation in shipbuilding industry.

Under the MOU STX will assist ADSB in designing, constructing and operating a shipyard when it builds additional facility in the United Arab Emirates in the future.

Both companies will also co-operate to develop human resources for shipbuilding industry.

STX said it will grant full support for the development of the shipbuilding industry in the UAE on the basis of its rich experience of achieving high production efficiency at Jinhae shipyard in South Korea and establishing a 'one-stop' shipbuilding base in Dalian, China.

STX and ADSB will also join forces to exploit potential markets in the Middle East to build merchant ships, naval vessels and offshore supply vessels.

Both companies plan to discuss co-operation measures in detail, after setting up a joint committee and working groups for each section.

With the MOU with ADSB, STX is expecting to create new business opportunities in the UAE in a variety of sectors such as resources development, port construction and new ship orders.

An official from STX said, "The MOU with ADSB was signed less than a month from the landmark deal between South Korean-led consortium and the UAE to build four nuclear reactors worth \$20.4bn in the UAE. As both countries also have promised to promote economic co-operation between them in various sectors, we hope many collaboration projects to follow further in plant and renewable energy businesses as well as shipbuilding."

### Hyundai pens \$1bn gas project

South Korea's Hyundai Heavy Industries has signed a \$1bn contract with Abu Dhabi Gas Liquefaction for engineering and construction work for a gas development project, local newspaper United Arab Emirates News reported.

According to the news report, the gas processing plant will be constructed on Das Island in the Persian Gulf.

The plant will process 1bn cubic feet of gas per day from Umm Shaif, an offshore field, and will form part of the massive Integrated Gas Development (IGD) Project

Hyundai said last July that it expected to complete the project by September 2013.

### Unions united to fight against layoffs

As restructuring and downsizing spread in shipbuilding industry, triggered by global economic recession and orders drought, labor unions of seven shipbuilding companies in Korea warned that they will never sit back and watch the companies pass 'the pain' to workers.

Korean Metal Workers Union's shipbuilding division members Go Min-cheol (chairman of STX Offshore & Shipbuilding branch union), Kim won-bae (chairman of Hyundai Mipo Dockyard labor union), Park Hyun-chul (chairman of SLS Shipbuilding branch), Jang Bub-lin (chairman of Hyundai Samho Heavy Industries branch), Jo Sung-man (chairman of Samsung Heavy Industries workers' council), Chae Gil-yong (chairman of Hanjin Heavy Industries & Construction branch), Choi Chang-sik (chairman of Daewoo Shipbuilding & Marine Engineering labor union) issued a joint statement on January 18th.

They criticized that contrary to the argument made by the companies, for their part, that they are suffering orders drought amid global newbuilding market downturn, it is

indeed their poor management that has led to current difficulties.

"Nevertheless, Hanjin is now conducting illegal restructuring without discussions with its labor union, and another downsizing is expected at SLS which is faced with workout crisis due to the company's incompetent management," they said.

Hanjin recently embarked on additional workforce restructuring after voluntary layoff program fell short of its target last month, and SLS filed for workout procedures to its creditor banks last month.

The union representatives added, "Companies are highly likely to ask for wage freeze and retreat in collective agreement going forward, setting out an argument that

'wage increase is absurd at a time when colleagues are being laid off'."

They said they are firmly resolved to stop companies from cutting workforce, through their resolute united efforts to fight against it.

Hong Hee-duk, Democratic Labor Party-affiliated assemblyman working at National Assembly's Environment & Labor Committee also held a press conference on the same day, where he urged Hanjin to stop axing its workforce.

Mr Hong pointed out, "Hanjin's Youngdo shipyard employs about 2,500 workers and its collaborative companies total 70 or so. If massive layoffs occur at the shipyard which forms the backbone of the local economy in Busan city, the entire economy in the city will take a big hit."

## Shipping & Business News

### Oversupply keeps confidence low

The industry may be struggling to come to terms with a glut of new orders, but business confidence appears to be unfazed, according to a new survey of levels of confidence in shipping, foreign media reports.

A survey by shipping accountant Moore Stephens, which keeps a regular tab on industry prospects as seen by the key players, found that the average confidence level had not moved since opinion was last surveyed in August.

Based on replies from respondents contacted in November, the average level was 5.7 (on a scale of one to 10), the same as in August. However, the 5.7 figure remains significantly below that recorded in the first such survey in May 2008, when it stood at 6.9.

"Confidence is somewhat fragile at present," said Moore Stephens shipping partner Richard Greiner.

This was unsurprising given the number of newbuildings about to flood the market, he said.

"There are too many ships already in operation, and even more to come, so there will be very little scope to increase freight rates," said one respondent.

Another said that the key to the massive orderbook crisis was for "the banks not to finance any more projects and for shipyards to agree to delays in delivery dates".

The survey found that more respondents expected the cost of finance to be higher in 12 months' time than at the time of the previous survey (48% against 45%).

The expectation of higher costs was most acute in Asia whereas, in the Americas, finance costs are expected to soften. A comment from one respondent highlighted the ongoing tension between lenders and owners.

"There is continuing disagreement between banks and owners," one respondent said. "The banks are not receiving a return on their money within the projected time, with the result that they are asking owners to repay their loans and are also looking for bigger interest payments."

Plans for investment over the next year had not budged from the 5.1 score seen in the last survey. However, there was a contrast at the regional level. Respondents in North America were more optimistic and those from Asia more downbeat.

"It is significant that the survey revealed that respondents in Asia anticipated a downturn in new investment over the coming twelve months, and that Asia also led the way in terms of expecting a big increase in finance costs," Mr Greiner said. "Given what has already been invested in the region, in shipyards and elsewhere, this is hardly a surprise."

The survey covers a range of professional groups within the industry. Of these, charterers showed the most significant drop in confidence over the latest three-month period, down from 5.8 to 5.6, while confidence among brokers increased slightly, from 5.6 to 5.7.

Confidence among owners remained unchanged at 5.7, while managers' confidence dropped from 5.9 to 5.8.

By geography, the most significant changes were evident in North America (down from 5.8 to 5.2) and Asia (5.9 to 5.7). Confidence in Europe continued its recent upward trend, from 5.4 to 5.6.