



# 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

### 929 ships canceled in 2010

The total cancelations of newbuilding contracts during the year 2010 are estimate at 929 ships, increasing by almost two times on 482 ships from the previous year.

In terms of ship types canceled during last year, bulkers account for 529 units of 39.7m DWT, tankers for 184 units of 14.6m DWT, gas carriers for 10 units of 500,000 DWT and boxships for 56 units of 2.7m GT (240,000 TEU)

According to N. Cotzias, contract cancelations for bulkers increased by 24% as compared with 426 ships from the previous year.

The canceled vessel types in the bulker segment involve nine VLOCs, 93 capesizes between 120,000 to 250,000 DWT, 39 post-panamaxs between 89,000 to 120,000 DWT, 46 panamaxs between 60,000 to 89,000 DWT, 115 handymaxs of 460,000 DWT, 177 handysizes between 25,000 to 40,000 DWT, and 50 small bulkers between 10,000 to 25,000 DWT.

As seen above, small ships below handymax account for over 60% of the total.

However, some of them seem to continue building regardless of contract cancelations.

### China Is Now The World's Largest Shipbuilder

The Chinese overtook South Korea as the world's largest shipbuilder in 2010, according to statistics released today.

Last year Chinese shipyards finished 65.6 million deadweight tons, an increase of 54.6 percent year over year.

Obviously shipbuilding represents a higher order of manufacturing than toys and sneakers. But China is beating all comers here, along with steel production, high speed rail and green tech.

### HMD inks 2,800TEU ships

Hyundai Mipo Dockyard has reportedly scored a new contract with Singapore's Pacific International Lines to build two plus four 2,800-teu containerships.

Delivery is set for 2013 and newbuilding price is yet to be known.

It is said the Korean yard won the first order from PIL this time around. The four optional units might be confirmed in the next couple of months.

Hyundai Mipo had won four boxship orders last year, all for feedership size of 1,000-teu class.

With the latest orders, PIL's newbuilding order tally grew to eight, including the 6,600-teu quartet ordered from China's Dalian Shipbuilding Industry Co.

### Samsung delivers largest boxship

Korea's Samsung Heavy Industries held a delivery ceremony for the Korea-built largest containership, 'CSCC Star' and sent it to its owner, China Shipping, on 15th January.

The world's largest boxship is 14,100 TEU with 366.1 meters in length and 51.2 meters in breadth.

And the unit took overall 10 months to be built.

Nam Jun-woo, director of Samsung, said, "we will build seven more ships of the same scale to deliver to China. Korea has earnestly enter into the era of building the world largest containerships."

### Japan orders recover, deliveries hit highest

Japan's combined new orders of last year recovered to the level of 10m GT for the first time in two years.

Japan Ship Exporter's Association (JESA) announced on 18th January that combined export-ship contracts of last year reached 271 ships of 11.15m GT by a 95% increase year-on-year in terms of GT.

The main players for the improved performances are middle-standing yards, which carried out vigorous new order activities from the beginning of last year to secure workload.

Japan's export-ship contracts dropped seriously after the Lehman Shock in September 2008 to reach 5.71m GT in 2009, which corresponds to the level of the 1980s.

In 2010, as world's ship orders have risen gradually since March, Japanese yards made increasing numbers of new order contracts for five consecutive months after June, improving new orders to 10m GT level.

In terms of export-ship types of last year, bulkers account for 90% in vessel term.

All types of ships exceed the results of the previous year, and, in particular, small- and medium-size bulkers below panamax account for 70% of the total, representing 199 ships.

In the tanker segment, only seven VLCCs were awarded last year, which is the same level of the previous year, but small- and medium-size ships below suezmax and LNG and LPG carriers were not won at all, falling short of the previous year's.

Three boxships were won, showing an year-on-year decrease while car carriers stayed in the same level as the previous year's, representing five units.

Meanwhile, total newbuilding output of last year stands at 364 ships of 17.58m GT, which is the highest record in history.

This is driven by an improvement of production efficiency and delivery for a large volume of new orders won during the booming period of shipbuilding.

The total of Japan's orderbook by the end of last year was estimated at 1,012 ships of 47.41m GT (20.6m CGT), which is enough workload for 2.7 years, considering 2010's deliveries.

The orderbook has continuously dropped since October 2008 and showed an year-on-year 15% decrease for last year in terms of GT.

## **Daewoo on the verge of M&A**

Korea's Daewoo Shipbuilding & Marine Engineering (DSME) seems to reappear on a large-scale M&A market soon.

According to industry sources and some financial institutes on 19th, forming is the mood, 'announcement of the sale of DSME seems on the verge'.

Korea Development Bank (KDB) and other creditors are seen to be looking for acquisition candidates at home and abroad from multiple angles.

One senior officer from the creditors said, "Daewoo is a coveted item as its results are good and the shipbuilding industry is recovering. I am very optimistic about the M&A for Daewoo."

The M&A is believed to start in a full scale when Korea Express finds out a new owner.

Min Yu-sung, president of KDB, said on 5th January, "the M&A for Korea Express comes first in order. As soon as completing the sale for Korea Express, we will undertake the M&A for Daewoo."

## **Japanese conduct aggressive sales**

Japan's shipbuilding industry seems to carry out omnidirectional new order activities regardless of ship types to secure workload.

Most Japanese yards have limited types of ships to build and received new orders only for the standardized types of ships in bulk since they can save designing costs for each

ship, improve production efficiency due to effects of series building and reduce procurement costs due to the standardization of ship-parts.

However, they now need to respond to new order talks for every types of ships to improve their orderbook as they have seen a considerable decrease in demand for newbuildings, such as boxships, car carriers, gas carriers, chemical and chemical tankers, since the Lehman Shock.

Therefore, some Japanese small- and medium-size shipyards are increasingly turning their eyes to other types of ships, such as bulkers and coastal ships.

This movement can be found in some large shipyards as well.

On the contrary, its rivals, Korean shipbuilders, has stuck to the 'mass production of multi-items' strategy with a huge production capacity and abundant ship designers.

Japan's another rivals, Chinese yards have sought for 'mass production of small varieties of items'. That is, some state-run designing companies design certain types of ships, and most shipyards adopt the design to apply.

Meanwhile, of the Japanese yards, which recognize the needs for policy changes to improve their orderbook, some still argue that competitiveness can diffuse because of diversification of ship types, so it is better to focus on main items as demand is dropping.

Therefore, there seem to be two counter strategies among Japanese yards in new order activities.

## **Design capacity, key to Top**

The previous world's shipbuilding leader, Japanese shipbuilders have waned in a fast pace since 1990.

However, Korea's shipbuilding industry, which started to develop in a full scale in the 1980s, began to get ahead of Japan's since the 1990s as it accommodated the needs for new vessel types, such as high value-added boxships and LNG carriers while Japanese shipbuilders showed a passive attitude over the increasing demand for new types of ships.

Kim Jing-wan, previous vice president of Samsung Heavy Industries, explained the background how Korea's shipbuilding industry could beat Japanese rivals, occupying the world's No.1 title, in a lecture.

"Korea focused on developing high value-added and highly-advanced technology vessels, such as LNG carriers and FPSOs by securing excellent technicians, while Japan kept building standard ships," he said.

Lee Seok-jae, researcher at Seoul-based Mirae Asset Securities, agrees to this point in the recent report asserting that Japan's fail in maintaining the No.1 position is rooted in large-scale layoff against design staff.

Japanese shipbuilders dismissed a large number of ship designers after the completion of the design of standard ships according to their judgement that there would not be demand for new types of ships as the first Oil Shock

happened in 1973 and, therefore, demand for ships decreased sharply by over 70%.

As a result of the judgement, Japanese yards could not respond to the increasing demand in the 1990s, Mr. Lee analyzes.

On the contrary, Korean shipbuilders put five to ten times more designers than Japanese rivals did into developing new types of ships, concentrating on improving product quality.

They did not terminate any ship designer over the last two to three years of intensified restructuring periods, but rather recruited more staff, saying, "it suggests Korean shipbuilders can exercise long-term leadership."

## **2010: 24 FPSO orders**

In 2010, 24 FPSO orders were signed, up to the level of pre-crisis time. During 2005 to 2008, the annual average orders of FPSOs reached 26 units. From 4th quarter of 2008, the figure began slumping while recovered from the second half of 2009.

The FPSO orders were triggered and motivated by projects, comparatively stable and warm. During 2005 to 2008, the amount of annual average orders was increased by 45% against that during 2000 to 2004. However, at the same period, the drilling platform manufacturing market was expanded by 300%.

In FPSO reversion and repair market, Singaporean Keppel and Sembcorp Marine were still dominant, with over 70% occupancy of market share. China's COSCO Dalian Shipyard took 20% since 2007.

In FPSO newbuilding market of 2010, Brazilian Engevix won eight-unit FPSO orders. Korean Hyundai gained one FPSO from Italian Eni S.P.A. Daewoo got a FPSO conversion contract from French Clov.

## **Shipping & Business News**

### **Freight up quietly**

People laugh, and people cry.  
Some give up, some always try.  
Some say hi, while some say bye.

On one hand, the shipping investors commonly showed pessimistic views. On the other hand the shipping lines insisted their confidence on future. The standoff was extended to 2011.

Without doubt, the shipping industry would be threatened by oversupply in 2011. However, many shipping lines were raising the freight quietly now.

'They don't change the freight but put forward all kinds of surcharges,' said an insider. They even establish an item called ECRS, begun from January 1st 2011. What was ECRS? CNY600 (\$90) per TEU and CNY1,200 per FEU

Meanwhile, Chinese government was carrying out investigation on shipping companies in 16 ports, to prevent unreasonable charge.

In 2011, about 1.2m TEU transport capacity was expected to be delivered while the total figure was just 15m TEU. In this case, how can shipping lines earn money? That's why they raise the price actually.

At the beginning of 2011, the shipping industry seemed so beautiful but pessimistic views were spreading previously. England based-Drewry estimated the profits of global shipping companies in 2010 might hit \$17bn but it would be reduced by half in 2011.

According to Alphaliner statistics, 76-unit boxships above 7,500TEU would enter the market in 2011, which was enough for ten Europe and America shipping route.

On the context of that, the shipping companies begin raising the price. When the freight went up, the cargo owners would surely become nervous but nobody cared about surcharges, some of which even reached 50% of freight.

### **20 Hong Kong-based companies sanctioned by U.S**

U.S. government recently announced it would carry out sanction on 24 shipping companies, 20 of which were registered in Hong Kong. The White House accused that these companies involved in Iranian missile development plan.

Surprisingly, the 20 Hong Kong based shipping companies were registered in two addresses while 16 of them were registered by the office address of Holman Fenwick & Willan.

Holman Fenwick & Willan refused to criticize anything on the event. As is revealed, the law office was the agent of the sanctioned companies.

U.S indicated the 16 companies were owned or controlled by Islamic Republic of Iran Shipping Lines (IRISL). In addition, they were establishing operation fleet for IRISL.

The other four Hong Kong based sanctioned companies were owned by Ahmad Sarkandi and Ghasem Nabipour. The White House said they worked for IRISL in October of

2010. IRISL was accused of Iranian weapon plan and came across international sanction.

### **China Exim finances ESL newbuilds**

The Export-Import Bank of China (China Eximbank) has signed an agreement with Ethiopian Shipping Lines (ESL) to finance 80% of the \$293.5m for the shipowner to build nine cargoships in China.

The newbuildings consists of seven multipurpose (MPP) vessels and two tankers at Taizhou Kouan Shipbuilding.

The cargoships are 28,000 dwt and the tankers 41,500 dwt for delivery in 2012.

### **LR to class 30% of new orders**

Lloyd's Register (LR) announced it will be classing a third of all new ships ordered at Chinese and Korean shipyards last year.

LR said it would be classing 29.6% of new orders placed at China yards and 28.3% at Korean yards based on figures for the numbers of ships ordered compiled by Clarkson Research Services.

The UK classification society noted strength in traditional areas such as Greece and the continued expansion of Asian shipowning was driving newbuilding demand.