

SHIP REPAIR : MAJOR CHANGES AHEAD

According to a major new in-depth Report from UK-based Ocean Shipping Consultants Ltd, the international shiprepair industry is entering a period of extensive change and uncertainty – based on the development of new shiprepair facilities in Asia and the inter-action of a number of factors impacting directly on the demand for shiprepair services. Overall, the outlook is for underlying demand growth, subject to marked short-term variation and considerable change in the profile of supply.

The following provides a summary of some of the findings of the major 205-page Report, entitled "The World Ship Repair Market to 2015". The new Report has been prepared after full consideration of the implications of the IMO rules on single-hull tanker phase-out, and of the deteriorating world economic climate in the wake of the terrorist attacks in the USA and the subsequent US-led military action.

Key Near-Term Factors

Key factors set to dominate near term shiprepair markets include:

- Tightening regulatory and chartering policies regarding vessel standards and maintenance.
- Intense competition in all regions, with near term pressure set to remain, particularly from developing low cost centres such as China, Vietnam, the Baltic and East Mediterranean/Black Sea.
- Shiprepair overcapacity, low revenues, and a reluctance to close capacity.
- Restructuring and consolidation among established shiprepairers, with focus on niche higher value markets
- The phase-out of single-hull tankers under IMO 13G regulations between 2003-2015.

- The impact of the economic slowdown, particularly in the US and Asia, combined with low freight markets.

Regional Market Developments

The expansion of low-cost shiprepair centres is set to overshadow near to medium-term shiprepair developments. Other factors such as government policies and yard location, will also play a crucial role in the establishment and support for new ship repair activities.

In the case of established repair centres, cost cutting, productivity improvements and measures to ensure tight scheduling and quality work are likely to be reinforced.

The following analysis highlights major regional features expected to impact on forward developments.

Asia

The expansion of new shiprepair facilities within Asia - particularly in China and to a lesser extent Vietnam - is expected to have a profound impact on established facilities in Singapore, as well as on major competitors in the Middle East and Japan.

Chinese governmental support for the development and expansion of its shipbuilding and ship repair industry is expected to maintain a downward pressure on forward prices within the region, focussing efforts on cost cutting and productivity improvements among established repairers.

Foreign investment in Chinese repair facilities is set to expand, with established repairers in Hong Kong, Singapore and Japan seeking joint-venture projects in order to establish facilities supported by a low cost base. Ongoing investment in facilities and skills is set to sustain long-term growth, and increase the volume of higher value repairs and conversion contracts over the forecast period.

NW Europe

With lower cost repairers in Singapore, China and the Middle East, European repairers have focussed their attention on intra-regional markets, as well as more complex conversion and specialist activities. Privatisation, restructuring, and a shift to more flexible work practices encompassing a greater degree of subcontracted work, have characterised European repair developments during the 1990s.

Emphasis on quality, expertise, and tight scheduling, has helped bolster repair/conversion activity among North West European yards. However, strong regional competition is expected to characterise developments over the forecast period, with most yards keen to expand the volume of higher value work.

Restructuring, mergers and cost cutting continue to overshadow repair developments across Northern Europe.

Mediterranean

Repair facilities based in the Mediterranean are likely to face increased competition from expanding yards in the Black Sea and cheaper yards in Asia for inter-regional traders.

Whilst general repair work will continue to form the core of Mediterranean yard activity, a number of yards are expected to expand more specialist services. In the case of Italy, cruise ship contracts are expected to form a substantial proportion of forward business, while yards in Turkey and Croatia are expected to expand their current activities in more complex repair work and conversion.

Overall, South European ship repairers are expected to witness continued downward pressure on prices over the forecast period due to the build up of lower cost facilities in Asia, as well as competition from nearby repairers in the Baltic, East Mediterranean and to a lesser extent the Black Sea.

North America

US repair markets are expected to remain focused on captive Jones Act vessels and government contracts, together with offshore and cruise ship work integral to Caribbean operations.

Cost cutting and productivity programmes are expected to improve underlying efficiency, though US base costs are expected to remain substantially higher than the low cost centres of Asia and the Middle East over the forecast period.

Ship Repair Demand Outlook

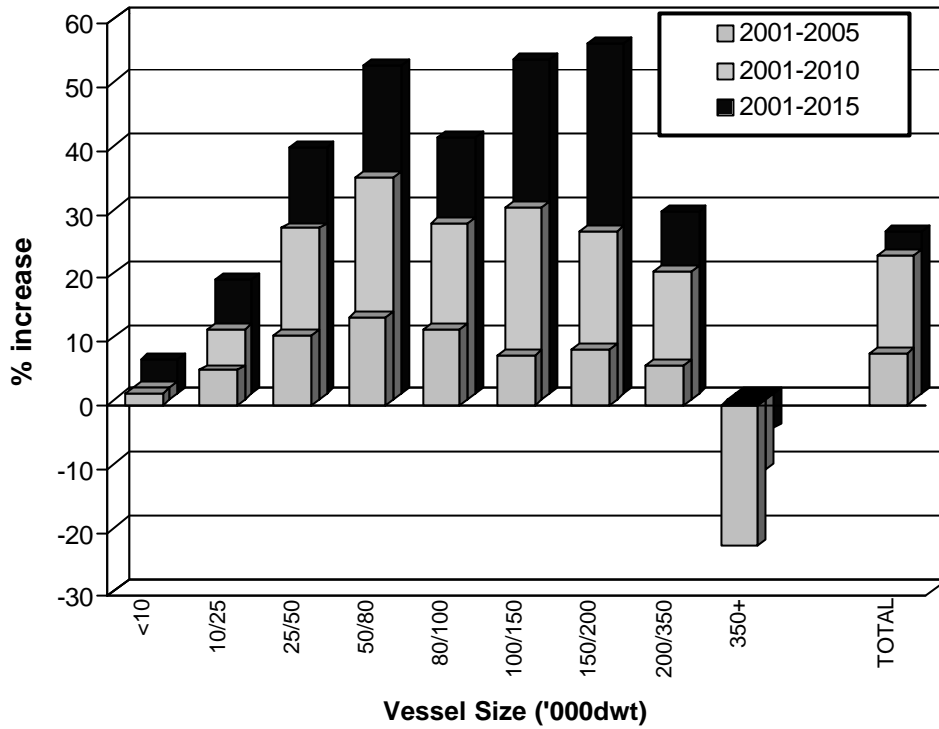
- The main feature of development is one of progressive expansion in underlying repair demand, supporting an aggregate growth rate of 2.1% p.a. over the 2001-2005 period, accelerating to an aggregate 2.5% p.a. between 2006-2010 before easing to around 2.0% p.a. between 2011-2015.
- Whilst near term markets are expected to be bolstered by repairs to single-hulled 1970s'-built tonnage in order to continue trading through to their phase-out dates (IMO 13G), a notable weakening in repair demand growth is expected over 2004/07 as a significant volume of VLCC and Suezmax tonnage is removed from the market under the regulations. This fall in demand growth is expected to reflect the much lower proportion of older vessels within the merchant fleet. However, repair needs for 1990s built double-hull tankers have yet to be fully realised, with vessels characterised by extensive internal spaces susceptible to corrosion and increased inspections.
- Over the longer term, fleet expansion within the larger tanker and bulk markets, supported by a rapidly expanding container fleet is set to underpin steady repair demand growth between 2010-2015. Age profiles are expected to support a reduction in vessels over 15 years of age through to 2010, in contrast to an expanding proportion of older vessels towards 2015, particularly within the container fleet.

- The most significant impact on forward repair demand will be attributable to the large-scale container fleet expansion programmes set to dominate longer-term markets. Between 2001 and 2005, underlying repair demand from the fully cellular container market is expected to rise by 26.4%, compared to an additional 32% rise between 2005-2010. Over the long-term period, 2010-2015, repair demand for container vessels is set to climb by a further 26.6%.

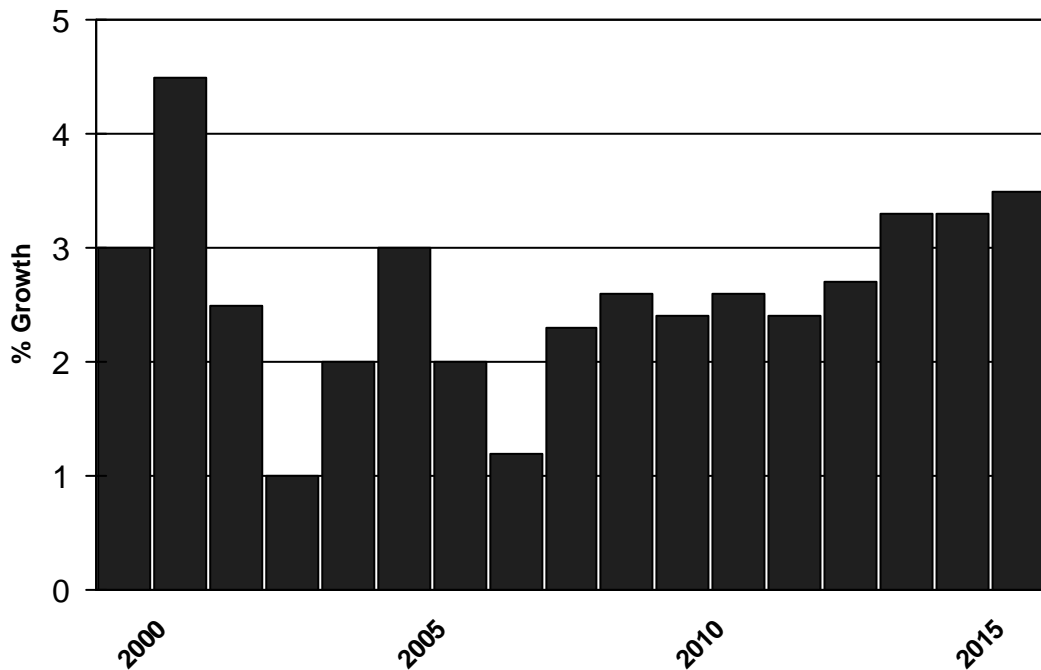
Implications for Ship Repair Yards

- Expanding activity in low cost yards is set to remain a key influence on global price developments, as well as competitive pressures over the forecast period.
- In Asia, low cost facilities in China, Vietnam, Indonesia and India are expected to compete with established facilities in Singapore, as well as the Middle East.
- In Europe, lower cost Baltic, East Mediterranean and Black Sea facilities are expected to maintain their competitive pressure on higher cost yards in North/West Europe over the near to medium term.
- Weakened near term freight markets are expected to undermine repair activity as ship owners postpone non-essential repair work due to reduced revenues.
- Inherent problems associated with excess regional capacity are expected to encourage specialisation and the development of niche markets. Cost cutting and productivity programmes are expected to characterise forward developments in higher cost facilities within the US and Europe.
- The removal of single-hulled 1970s'-built tankers due to IMO regulations is expected to have a profound impact on the profile of tanker repair activity over the near term, reducing the volume of older tankers within the fleet. However, repair demand on ageing double-hulled vessels has not been fully assessed, with enclosed spaces likely to require an increasing level of maintenance as ships age.
- Overall merchant fleet growth over the medium to long term is expected to accelerate, supported by a rapidly expanding container fleet and more modest growth among other major sectors. Yards located within major container ports are expected to benefit from expanding fleet capacity throughout the forecast period.
- Rising costs in Singapore and South Korea are expected to encourage joint ventures, with investment, training and expertise switching to new facilities in low labour cost regions.

Forecast World Ship Repair Demand by Vessel Size



Forecast Annual Ship Repair Demand Growth to 2015



- Overall, ship repair yards worldwide are expected to focus on cost cutting and productivity programmes over the forecast period overshadowed by heightened competition and limited price escalation.
- Ship repair yards are expected to develop a flexible approach to vessel needs, in terms of management, contract type and the location of the ship during repairs – alongside, drydocked, or on passage.
- Increased competition for major repair works, and limited opportunities to specialise in high value contracts, are expected to encourage ship repair yards to develop subcontracting practices, and to remain profitable on a diet of minor or small jobs.

In 205 pages, the highly detailed and extensive new Report contains analysis of all aspects of international shiprepair industry development, including detailed forecasts of capacity development in different countries and for different vessel types/sizes, likely shiprepair demand by vessel size, and associated industry demand/supply conditions. The Report is essential reading for all parties with an interest in the future development of the shiprepair industry, repair prices and the main shipping sectors.

“THE WORLD SHIP REPAIR MARKET TO 2015”

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