Low-cost Asian labor means other regions have to scramble for a piece of the newbuild pie.

Some of the world’s great shipbuilding nations have long since been displaced as a result of the rise of Japanese and Korean and, more recently, Chinese shipbuilding. Croatia, where shipbuilding was once a way of life, no longer functions as an important player and currently accounts for about one percent of global deliveries. Brodosplit is one of the few yards there to have made the transition from tankers and bulkers to value-added vessels and, therefore, survival. As a result, the yard’s output during 2011 included the fruit juice carrier Orange Star, the ROPAX vessel Piana and an order for a heavy-lift vessel.

The rise of shipbuilding in Japan and Korea stemmed in part from a relatively cheap and abundant labor force, but these countries are now also struggling to compete. “Recently the Japanese yen has strengthened and, together with the downturn in the market, the Japanese shipbuilding industry is struggling to get orders particularly when some of the projects are of the scale to require many units in a fairly short amount of time,” says Hiroshi Iwamoto, spokesman for the Shipbuilders’ Association of Japan.

NOT JUST SHIPS
Franz Kufner, spokesman for shipbuilding software provider Intergraph, says that while the global shipbuilding market was slow to recover from the economic crisis, the global offshore market
helped make up for it: “This is particularly true in the Asia-Pacific region, especially in deepwater projects that require integration with floating facilities like a ship. We see a growing trend in the industry with traditional large shipbuilders in the region, such as Korea, China, and Japan, as well as Southeast Asia, enhancing their offshore capabilities and providing a single marine solution for both shipbuilding and offshore. As such, the offshore market is growing strongly in the Asia-Pacific region.”

In a move indicative of the expansion underway, crewboat builder Penguin Shipyard International is increasing the size and capabilities of its offerings. The yard is developing a 50-meter dynamically positioned fast supply intervention vessel to support deepwater activity in more challenging environments. In 2011 the yard built and sold a record 10 of its 36-meter crewboats and...
expects this number to be surpassed in 2012. The first of its new-generation, green 38-meter crewboats was launched in May.

Diversification beyond shipbuilding is playing a key role for some larger yards in both Japan and Korea. Hanjin Heavy Industries has commenced the manufacture of steel frames for oil refineries. Mitsubishi Heavy Industries is expanding its production of steel structures and actively marketing an air lubrication system for hulls and a ballast water treatment system. Korean yards are becoming major players in the construction of LNG vessels, and Hyundai Heavy Industries celebrated a landmark 100 million gross tons of deliveries in March.

**CHINA RISING**

But the overall statistics speak for themselves: In 2011 China was ahead of Korea for the second year running with a 39 percent market share of delivered tonnage compared to Korea’s 32 percent. Clarkson Research Services data for February 2012 shows Korea’s total order book standing at 1,089, less than half China’s, which surpasses Korea in both numbers and deadweight. However, the Chinese industry is still maturing, and vessels tend to be smaller or simpler. China does not exceed Korea if the dollar value is considered.

That is likely to change. China’s Sinopacific Shipbuilding has teamed up with Mitsubishi Heavy Industries to optimize its bulk carrier designs and last year delivered its first in-house designed OSV. Chenxi Shipyard now joins Tianjin Xingang Shipbuilding Heavy Industries with orders for Deltamarin’s advanced handysize bulker design.

The *China Daily* newspaper reports increased local activity in the LNG, cruise and drillship sectors and cites Hudong Zhonghua Shipbuilding as entering these sectors. Vessel size is also increasing, and Yangzijiang Shipbuilding has been contracted to build 25 10,000-teu container ships for Canada’s Seaspan Marine – China’s largest container ship contract to date.

Chen Qiang, CEO of Rongsheng Heavy Industries, says a lack of advanced technology has prevented over one-third of Chinese shipyards from receiving orders in 2012. “It will be difficult to secure new orders of traditional vessel types. However, orders for high-value vessels such as very large container ships are expected to remain steady. The current market situation will guide the shipbuilding industry into a period of re-

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structuring and polarization. This tendency will further broaden the gap between leading shipyards and greenfield shipyards,” he says.

Like Japan, China is strong in the bulker market, but the vessels tend to be smaller or simpler, often handysize, says Adrian Economakis, lead research analyst at VesselsValue.com. Currently there are 206 handysize vessels on order in China, more than either Japan or Korea. Looking exclusively at the tanker, bulker and container segments, China has 1,400 ships on order worth $43 billion. This is roughly 10 percent of the current fleet in numbers, deadweight and value. China reportedly offers discounts of five percent if paid in yuan.

THE U.S. MARKET
All of this is in sharp contrast to the U.S. market where, protected by the Jones Act, American-built ships cost at least double that of a Japanese-built ship, says Economakis. Yet many U.S. yards are flourishing in this protected, relatively stable environment. Offshore support vessels that left with the rigs after the Macondo oil spill are now in high demand. Vessel construction and rig overhaul company Signal International is seeing increased demand for its services and is busy with a range of projects including the recent repair and upgrade of Transocean’s *Henry Goodrich* rig. The scope of work included overall repairs, upgrades and refur-
bishments of the rig, crew accommodations, lifeboat capacity, and the renewal of coatings and piping.

However, the market is not solely focused on Gulf of Mexico work, says Christian Vaccari, President of LEEVAC Shipyards. Vaccari has fielded inquiries from Brazil and Nigeria, where local owners have shopped around in Asia but found favorable financing in the U.S. “We’ve bid over a billion dollars’ worth of new construction projects,” says Vaccari. “We are hoping to see things get back to the level they were in 2009.” LEEVAC is also seeing positive action in other sectors. April saw a contract for two escort tugs shortly after the launching of the AET Partnership, the second of two lightering support vessels from an order that has options for up to six more.

Wisconsin-based Bay Shipbuilding, a Fincantieri subsidiary, has orders for two ice-class PSVs and is looking to the North Slope and Alaska as well as the Gulf of Mexico to spark orders over the next few years. The company also has a steady stream of work converting self-unloading bulk carriers operating in the Great Lakes from steam to diesel propulsion. This type of conversion is becoming a popular life-extension solution for these “lakers,” which can operate for 50 years in the non-corrosive, fresh waters there.

Bollinger Shipyards is also optimistic. Its backlog for new construction is strong with Fast Response Cutters for the U.S. Coast Guard, Ocean Class tugs for Crowley, sludge ships for the City of New York and tank barges for Bouchard Transportation.

The need to replace aging fleets across the U.S. and Canada is creating a promising outlook for newbuildings in the ferry market, said Vince Piscitello, Vice President of Business Development at Portland, Oregon-based Vigor Industrial. Vigor subsidiary US Fab is currently building the first 144-car ferry in the Washington State Ferries’ fleet and will begin construction on a second at the end of the year. US Fab is also actively pursuing contracts in Canada and California. Alaska Ship & Drydock, acquired by Vigor in February, has officially signed on as a partner with the State of Alaska to design the Alaska Class Ferry.

THE EUROPEAN SCENE

The passenger vessel market is alive and well in Europe, the long-time leader in cruise ship construction. STX Europe reports improved results for STX Finland and STX France as a result of the cruise and ferry sector. Cruise Market Watch reports that total worldwide cruise capacity at the end of 2012 will be 256 ships and 428,835 passengers (a 4.5 percent increase over 2011). A total of seven new ships will be delivered in 2012, and another eight are scheduled for 2013 or 2014. One of the seven for 2012 was Meyer Werft Shipyard’s Disney Fantasy in February. Along with the earlier Disney Dream, the vessel is the largest yet built by the yard.

The market for smaller passenger and pleasure vessels is active with Fincantieri signing a memorandum of understanding in April for two relatively small luxury ocean cruise ships with an option for a third. Damen Shipyards subsidiary, the Dutch

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superyacht builder Amels, has the busiest workload the company has ever had with 12 new construction projects and two major refits underway. Amels has recorded growth in annual turnover of approximately 10 percent over the past four years and become the largest superyacht builder in the Netherlands. Damen is also seeing demand increase for larger offshore wind farm support vessels and barges capable of heavy deckloads to support expansion of the wind industry into deeper water.

**DOWN UNDER**

Offshore wind is a sector that Australian shipbuilders are gaining strength in as well. Strategic Marine of Australia has established a service network in Europe on the strength of signing contracts to build eight 20-meter offshore wind farm crew transfer vessels (including options) for the European market. Austal has also opened a new office in the region. The company has been successful in Europe, particularly in the ferry market, and now sees further opportunities in offshore wind. Austal has also bought a yard in the Philippines, citing the country’s lower cost base as a key reason. The first vessel to be built there is a wind farm support vessel.

**INDIA AND THE PHILIPPINES**

Some Korean and Japanese yards already make use of the Philippines due to the country’s relatively cheap labor costs, but India may also emerge to join the Philippines as a new shipbuilding base. Currently the country’s four major yards – Cochin Shipyard, Mazagon Dock, ABG Shipyard and Pipavav Shipyard – are focused on the local naval and offshore markets, but the country also has experience with VLCCs, LNG carriers and passenger vessels.

Mazagon is expanding its capabilities to include vessels up to 62,000 dwt and the fabrication of wellhead platforms, process and production platforms, and jack-up rigs. Currently India is hardly visible in global statistics, but the industry is expected to grow at a rate of eight percent annually. Like Korea, Japan and China before it, low labor costs feature as one of the major catalysts for growth.

Wendy Laursen writes from New South Wales, Australia.