Shipping firms not expanding even as falling prices make builds easier

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Local shipowning firms will not be making any rushed decisions regarding expansion of their fleet even as falling prices have made new builds more affordable, said senior industry players.

Shipping companies in the region are adopting a "wait and see" approach to the current price trend but hope to make a decision once prices gain stability.

"There is no market at the moment especially because prices for new builds continue to change almost every week and no one seems to know when and where this trend will stop," Ahmed Essa Harib Al Falahi, CEO of **Gulf Energy Maritime {GEM},** told Emirates Business.

"As a company with very long-term ambitions, we need to expand to achieve our goals. Although low prices are often a lure, we would like to wait and see how low the price will go."

In a new report by Clarksons, prices for new builds are projected to continue their downward trend to next year amid slack demand and contract cancellations.

The report says that falling prices are "inevitable" and necessary so as to generate demand for new buildings, which has slowed down due to the financial crisis.

However, Abdullah Al Shruaim, Chairman of **Gulf Navigation Holding {GNH},** said that while the demand for new builds is still there, companies are taking very cautious steps before making any moves.

"Some companies have been waiting for prices to fall before they could make new orders, but with the current scenario, low prices might not immediately attract the attention of potential buyers," said Al Shuraim.

He noted that **GNH** had postponed its acquisition programme as prices for new builds shot up at the beginning of the year. "We want to buy low but we will wait for prices to reach levels that we feel make economic sense for us to buy given the economic environment. We are waiting for stability in the market."

Prices for new Very Large Crude Carriers (VLCCs) reached their highest level at the beginning of this year with prices touching the $160 million mark amid high demand for new builds as the demand and price of oil escalated.

The rush for new builds was also witnessed in other sectors especially in the dry bulk and container sectors as demand for iron ore in China increased.

However, the slowdown in global demand has hit the dry bulk and container sectors with freight rates going down by over 90 per cent compared to their levels mid-2008.

Most of the orders for new bulk carriers and container vessels that were placed during the boom period are now being cancelled as owners can no longer secure financing and as the sectors continue to show no signs of a quick recovery. Between 40 per cent and 60 per cent of new bulk carrier orders have been cancelled.

Although freight rates for tankers have also slumped due to the falling demand for oil, cancellations for tankers currently on order is unlikely, but a slowdown in demand for new builds is widely expected.

The new report by Clarksons predicts that falling prices would provide some level of relief to shipyards, which have been affected by a wave of cancellations, with some of them especially in China shutting down their operations.

"It is at least some comfort to the yards in an otherwise gloomy environment that they can also expect to see their cost bases deflating as steel, equipment and labour costs all moderate so, they may well be able to protect their margins in the short term even if prices fall significantly" Clarksons said.

{Zawya}