



NATO Foundation
Defense College

Emerging Challenges June 2016

Is shipping industry in a crisis?

The question was raised following an information concerning the European Central Bank (ECB) and not officially confirmed. According to sources familiar with the ECB procedures, the bank is analysing the available data and later ask to the most relevant European banks to provide for details of their shipping loans and the status of their loan loss provisions. If confirmed, it can be read as an alert for the shipping industry; nonetheless it is a remarkable intervention by the institute led by Mario Draghi worried about deterioration in the shipping market. At the same time Moody's rated the shipbuilding outlook negative also due to the end of the positive commodities' cycle and the slowdown of Chinese economy.

The situation is even more troubling in (South) Korea, one of the leading country in the world for the production of large vessels. The debt owed by the nation's shipbuilders is around \$ 39 billion in loans. The Export-Import Bank of Korea, the Korea Development Bank and Shinhan Bank have significant exposure to shipbuilders and for this reason it is unlikely to see the central government to lead a consolidation process. There is still no public decision about how to deal with this issue; it is an urgent matter and no time should be lost to participate in a Korean banks bail out. But it is probable that solution will be found and decision taken only by late September-October.

In the private sector two different events have to be highlighted.

On one hand, the container shipping is seeing a wave a mergers and acquisitions due to a combination of weak consumer demand and overcapacity. For this reason, the German container shipping line Hapag-Lloyd AG has agreed a merger deal with United Arab Shipping Company (UASC, the majority-held by the government of Qatar) creating the fourth group in the market for carrier capacity.

On the other hand, the French container shipping group CMA CGM (Compagnie Maritime d'Affrètement - Compagnie Générale Maritime) has taken full control of Singapore's Neptune Orient Lines (NOL) motivated by the goal to reinforce both its position as a leader in the container shipping industry and its position in Singapore as a leader in the maritime and shipping industry.

The industry is living a transformation process which is usual for such a kind of business. However, it is hard to make any reasonable prediction, although troubling developments are expected to be coming down the pike.