



## Building on shipping's future

Nick Savvides | Oct 20, 2023

***Global shipbuilding order book will need to start to include dry and liquid bulk vessels to meet the increasingly stringent regulations that will begin coming into force from January.***

New regulation is a major driver of the surge in newbuildings in the container, gas and car carrier sectors which has driven up profits in East Asia's major shipyards in Japan, South Korea and China.

And though ordering for dry and liquid bulk vessels such as crude oil tankers has been limited, it is expected that these sectors will need to start ordering sooner rather than later as they too will need to meet the increasingly stringent regulations that will begin coming into force from January.

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Ben Nolan, MD maritime and energy infrastructure at Stifel, told Seatrade Maritime News: "Shipbuilders have had a pretty solid few years with strong demand for container, LNG, LPG, and car carriers."

Given that the bulk sector will need to order, and the yards have a decent backlog of work, Nolan believes that "there is no reason for yards to come off their prices. I think until demand softens for a protracted period, we are not likely to see a material price reduction."

Meanwhile, Darron Wadey, an analyst at Dynamar explains that container shipbuilding is still seeing price increases even as the rates in the short term have returned to pre-pandemic levels and below, while over-capacity in the sector is expected to last for some years.

"The price for newbuild containerships, in particular 23,000 teu [vessels], keeps increasing, despite concerns in the container market of looming over-capacity and a natural slowdown in ordering activity. As of mid-October 2022, Clarksons reported the price of this size of containership as being \$215 million. Twelve months later, they were \$232 million, a difference of 8%."

Those prices are expected to remain elevated for the time being with Nolan pointing out: "Inflation is likely to be sticky with respect to labour, equipment etc. in addition to the higher cost of capital. That probably brings the floor on shipbuilding prices up, although [its] tough to say what the new average or floor price would be."

 Shipbuilders-share-prices-Credit-Dynamar.jpg

Drewry Shipping Consultants analyst Simon Heaney also points to regulation as a driver of container ship orders.

"Prices are on the rise because there are much more sophisticated designs on offer, including eco-ships, along with an increase in the price of steel and the massive demand means that slots are hard to find," explained Heaney.

The expected push for new tonnage was highlighted by Nolan too, who believes that the current state of the market could favour the Korean yards in particular.

“There hasn’t been much in the way of dry bulk on tanker ordering. However, shipyards have good backlogs and there is an expectation that tankers and dry bulk will have to start ordering given stricter emissions standards, so there is no reason for yards to come off their prices. I think until demand softens for a protracted period, we are not likely to see a material price reduction,” said Nolan.

Wadey believes that the yards across the board could benefit pointing out: “On average, share prices of major shipyard groups have risen by approaching one third from mid-October 2022, with only one, Hyundai Mipo, going down.”

Regulations are having a significant impact, according to Wadey, with the EU Emissions Trading System set to elevate shipping costs significantly over the next three years in particular, as the ETS becomes more stringent, and in 2026 CO<sub>2</sub>e, carbon equivalent emissions, will be regulated, which will include NO<sub>x</sub> and methane from LNG.

“The impact of these regulations will be to encourage if not accelerate the drive to vessels that reduce emissions as much as possible, with the result owners may well start looking to replace older ships sooner than if these regulations were not in place. Effectively, this will bring the replacement orderbook forward,” concluded Wadey.

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