

## Good times for pump companies

**The drive to replace single-hull tonnage has brought on a boom in the ship equipment manufacturing industry. The companies which sell cargo pumps have benefited enormously from the heightened newbuilding activity, but will the good times last? By Siobhan Oswald**

The tanker pumps industry, like most, is highly cyclical. Depending on who you talk to, this cycle can last anywhere between five and 10 years. Although one thing everyone does agree on is that the industry is definitely at the peak of its cycle right now. Even the less optimistic say that this will last until at least the end of this year. The phasing out of single-hull tankers will begin next year, which means that there will be a need for new tankers - especially in 35,000 to 45,000 dwt range, says one industry figure, adding that there has been an increase in the ordering of 70,000 dwt ships as well. All of these ships need pumps, which accounts for the boom in activity which started several years ago.

"We are at the top again," says S E Brink, export manager at Svanehøj, a division of the Hamworthy KSE Group. "For the last three to four years there has been a slow upturn. It is natural law that it will go down again. The reaction to the new ships built has to hurt some time, and we cannot make money if no ships are being built." He says that Annex 13G to MARPOL, which mandates the phase-out of single-hull tankers, has presented a lot of business for the industry. "The new rules mean more sales for us," he explains simply. He adds that even in tougher times Svanehøj is one of "the lucky ones" because it has "two legs to stand on", referring to the two other kinds of tanker for which the company makes deep well - chemical and liquid petroleum gas (LPG). "The deep well pumps for chemical carriers business could be better," he admits, "but we are not crying. We also produce deep well pumps for LPG tankers which is going very well at the moment."

Turnover and profit at the Danish-headquartered company are continuing to grow, increasing by 10 to 15 per cent, according to Brink. "In general the market is going well," he says. "Some say freight rates are low because there is so much tonnage available but regardless of this the shipowners are building more ships and, in turn, they are destroying themselves. If you have many ships with a low income it is the same as a few ships with a high income so they are still earning money."

Edwin Van Noord, commercial manager at Marflex shares his counterpart's optimism. He claims that he sees no negative signs in the industry at the moment. He attributes this to Marflex's main product: electrically driven pumps. "Our biggest competitor does hydraulically-driven pumps which are seen as old fashioned now," he says. "We believe electrically driven pumps are the future. We are conquering more of the market; building might be slow, but we will capture a bigger market share."

Van Noord says that Marflex realised 15 years ago that "electrically driven pumps were the future". "Hydraulically-driven systems were the first ones on the market 35 years ago," he explains, "and there is still a very wide range of ships sailing with them at the moment partly because customers are afraid to change. There is the element of familiarity and the hydraulic is still a good product but the electric pumps have many advantages over them - greater efficiency, less noise, no oil leakage, installation costs are much lower, they are cheaper, easier to fix and maintenance costs are low."

Marflex already boasts 45 projects for this year and Van Noord has announced that it is launching new products at the SMM trade show in Hamburg, to be held in September 2002.

Marflex claims to have a market share of between 15 and 20 per cent with a target market share of 50 per cent. Although the company's market is growing rapidly -

almost doubling its business each year - this is a feat which will take the best part of a decade. Asked how it plans to achieve this, Van Noord's answer is straightforward: "By working very hard."

With speculation that most of the Annex 13G replacement tonnage has already been ordered, the pump manufacturers are going to have to work very hard to continue the growth they have enjoyed over the past few years. It is believed, for instance, that those tankers in the 40,000 dwt range due to go out of service as a result of the phase-out of single-hull tonnage have already been replaced through new orders. In addition, newbuilding activity within the chemical tanker sector has slowed down significantly as many of the bigger shipowners have spent the last five years renewing their fleets.

Another negative factor affecting the industry at the moment are the abysmally low freight rates. A long period of low rates inevitably dampens the newbuilding market and consequently affects equipment manufacturers. The cargo pump manufacturers will not be exempt from this downturn. "We have experienced very good activity thanks to the low ship prices," explains one industry figure. "When prices of ships are low owners invest in new ones, then the market becomes over-saturated and charter rates go down. We saw it in the container business."

Most, however, remain philosophical. They realise that they have had their "few good years" and that the future will be slightly more difficult, as replacement tonnage begins to trade in the world's waters.

"Business is really positive now but it will gradually go down to the bottom again," says Sadanori Terao, MD of Shinko Europe, referring to the famous cyclical nature of the industry. "It all depends on the newbuildings of the shipyards. When the tanker business market increases so does our business and the tanker market is slowing now." He believes that this year marks the peak of the tanker newbuilding market, which means that the Shinko manufacturing schedule has also peaked.

So is the only way from here down? As with Svanehoj, diversification is the name of the game. "We are concentrating on cryogenic pumps for LNG carriers at the moment," says Terao. "For crude oil tankers we have a big share - about 85 per cent - of the world market. But for LNG carriers we only have a share of about 11 per cent share so we are trying to increase it in that sector." In fact, Shinko has been actively trying to increase it since 1993 when it entered the sector. "Our dream is to capture a market share of 50 per cent by 2010."

Shinko reported a turnover of around ¥15bn, an amount which it hopes to increase to ¥20bn this year. Terao explains how: "Most competition comes from Europe because there are so many manufacturers there, many more than in Asia. We cannot even enter the market for engine room pumps because the costs were too high for transport." Instead, the company will concentrate on entering the Chinese market for LNG carriers. "We are going to concentrate on our marine business," he explains. "Cargo pumps and steam turbines for tankers is our main product and we plan to improve the quality of them and provide our customers with good products."

Yet, Terao admits Shinko faces some stiff competition from the Korean manufacturing giant Hyundai. Hyundai entered the market a couple of years ago when Mitsubishi pulled out, but not before it had handed all of its expertise over to the Korean company. Hyundai currently has a market share of between one and two per cent, says Terao, but he is certain that this will increase. "Hyundai is the biggest company in Korea," he says, "and since they started to manufacture cargo pumps and steam turbines they have dented our market share. Their prices are lower because they are Korean and, therefore have lower manpower costs." He acknowledges the strength of the company and says some shipowners have already switched to the Hyundai product.