European Commission

Enterprise Directorate-General

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The Situation in World Shipbuilding and the European Response

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World Shipbuilding

Key Issues and Challenges

- **Over-capacities worldwide (ca. 25-30% of production) resulting in depressed newbuilding prices ➔ Market Monitoring**
- **Unfair competition practices from Far Eastern yards leading to massive market distortions ➔ Trade Complaint (WTO), OECD work and Defensive Measures (TDM)**
- **State aid issues ➔ New framework for state aid to shipyards**
- **Constant need to improve competitiveness ➔ Yard Productivity, Sectoral Analysis, R&D Support, Industrial Policy, LeaderSHIP 2015 initiative**
- **Dynamic technological developments: Growth in ship size, more complex transport logistics, supply chain management and e-commerce, etc. ➔ Maritime Industries Forum, Studies**
- **EU enlargement ➔ 3 Sector Studies**

Background

Council Regulation (EC) No. 1540/98 (now expired)

- **Ending operating aid for shipbuilding contracts in the EU after 31/12/2000, Commission to report on market situation**
- **1st report submitted to Council of 9/11/1999 (COM (1999) 474 final)**
- **2nd report submitted to Council of 18/05/2000 (COM (2000) 263 final)**
- **3rd report submitted to Council of 5/12/2000 (COM (2000) 730 final)**
- **4th report submitted to Council of 14/05/2001 (COM (2001) 219 final)**
- **5th report submitted to Council of 6/06/2002 (COM (2002) 205 final)**
- **6th report submitted to Council of 26/11/2002 (COM (2002) 622 final)**
- **7th report submitted to Council of 12/05/2003 (COM (2003) 232 final)**
- **Reports are available on internet in all 11 official languages: http://europa.eu.int/comm/enterprise/maritime/index.htm**

Shipbuilding Policies

Market Monitoring

Supporting Study by First Marine Int'l

- Phase I: 04/1999-05/2000, Phase II: 06/2000-05/2001
- Phase III: 08/2001-09/2002, Phase IV: 10/2002-09/2003
- Phase V: 10/2003-09/2004, Phase VI possible and likely
- Scope: Merchant ships > 5000 gt from Korea, Japan, China and Vietnam
- Monthly reports on contracting activities incl. prices
- Cost investigations for selected contracts deemed underpriced or otherwise injurious to EU shipyards
- Background information on market movements, strategies, macro-economic conditions, companies etc.
- Co-ordination group (Commission services, industry representatives)

Shipbuilding Policies

Market Monitoring

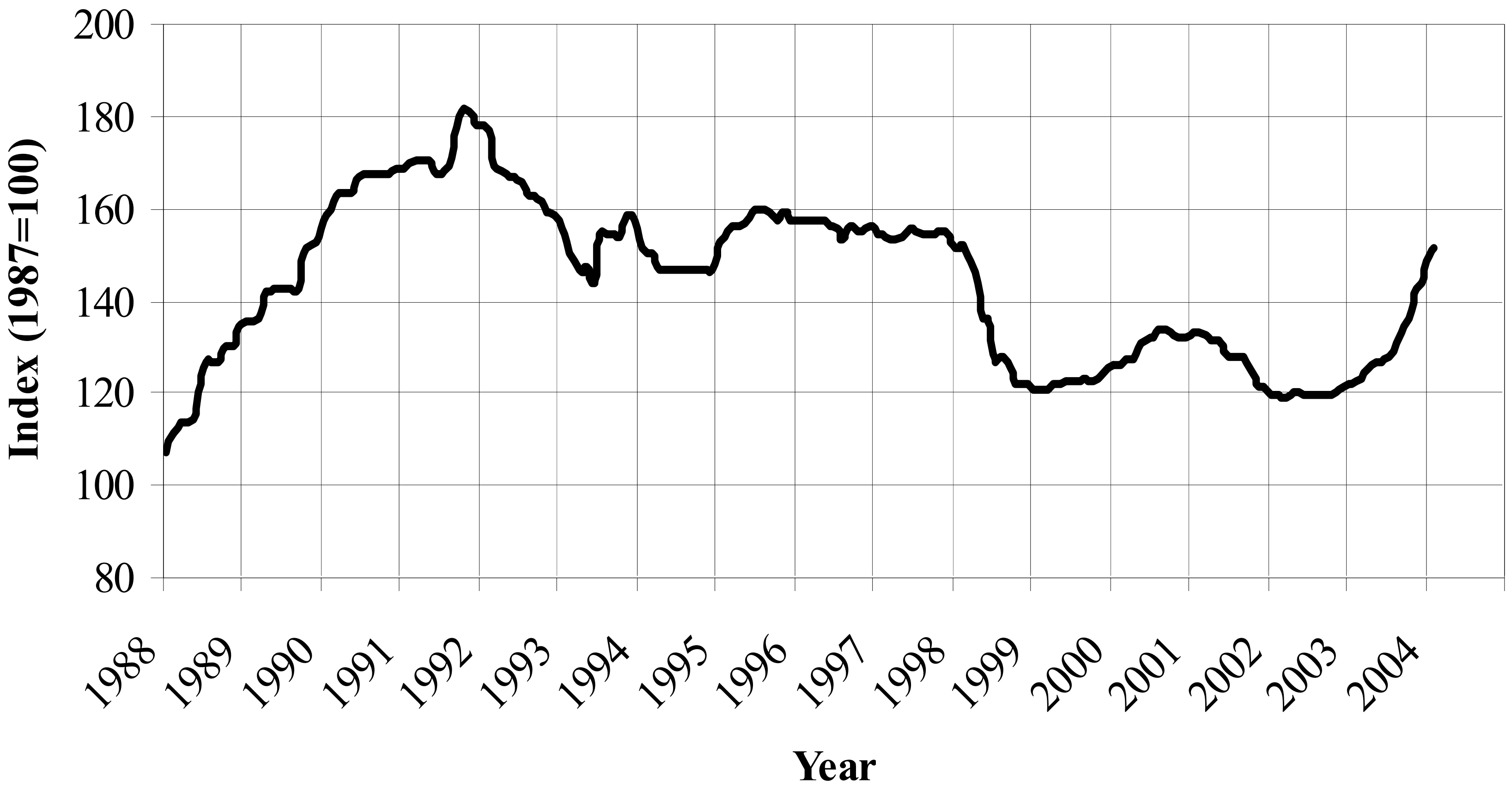
◎Results So Far

- Significant over-capacity in the market, growing (China, Vietnam)
- Main cause is Korean yard expansion in the early and mid 90's
- Very low prices for almost all ship-types
- Creation of artificial demand (tankers, containerships, LNGCs)
- Significant shift in market shares from Japan and EU to Korea, in particular concerning container vessels and LNG carriers
- More than 55 detailed cost evaluations so far
- Orders placed in Korean yards in general not cost-covering
- Losses taken by Korean yards are 15-20% of true costs
- Debt servicing and inflation in general not taken into account
- Korean costs continue to increase: Hitting the brickwall soon ?
- China to become the next big problem case ?

Shipbuilding Policies

Market Monitoring

Newbuilding price developments (FMI index)



Shipbuilding Policies

Trade Complaint

WTO: Request for Dispute Settlement (case DS273)

- Base: Agreement on Subsidies and Countervailing Measures
- Issues: Illegal export subsidies by the Korean Government and actionable subsidies, mainly through restructuring of bankrupt yards
- Timeline:

  Formal submission of request in the WTO on 24 Oct. 2002

  Hearings with Korean Government in Nov. and Dec. 2002

  Panel hearings in Geneva in March and May 2004

  Panel report (ruling) by August 2004 (slight delay possible)

  Appeal(s) would need another 8-10 months to resolve the case

Shipbuilding Policies

OECD Agreement

OECD: A new shipbuilding agreement

- Base: Mandate from the OECD Council to conclude a new agreement to assure normal conditions in the world shipbuilding market (after 1994 agreement never entered into force)
- 26 countries participate in the negotiations, incl. China, covering >95% of world shipbuilding. Only USA is not participating.
- Agreement to be concluded by 2005
- Progress report to be given by July 2004
- Key issues are subsidies (banning most of them) and market distortions through unfair pricing practices
- Almost no progress so far due to Korean blockage, esp. on pricing issues, and Chinese insistence on wide exemptions

Shipbuilding Policies

Temporary Defensive Mechanism - TDM

Background

Commission decision of 8 May 2001

- **Complement eventual trade complaint against South Korea at the WTO with a limited temporary subsidy regime in the EU**
- **Limited to ship types where material injury has been shown through TBR reports**
- **Council finally agreed to this approach on 27 June 2002**

Shipbuilding Policies

Temporary Defensive Mechanism - TDM

Council Regulation (EC) No. 1177/02

- **Direct aid of up to 6% of value allowed for container ships, chemical/product tankers and LNG carriers**
- **Contracts signed as of 24 October 2002**
- **Prove of Korean competition for order required (owner / broker)**
- **Regulation expires 31 March 2005 or when WTO case is concluded**

Shipbuilding Policies

EC State Aid Regime

New framework on state aid to shipbuilding

General elements

- Replaces Regulation EC No. 1540/98
- Entered into force on 1 Jan. 2004
- Shipbuilding-specific rules only for innovation aid, closure aid, regional aid.
- Export credits and development aid to follow OECD rules
- Otherwise, horizontal rules apply
- Simplification of procedures and rules, but "philosophy" remains the same: State aid needs to be kept to a minimum and compensation for market distortions has to be foreseen (e.g. output restrictions).

New framework on state aid to shipbuilding

Innovation Aid

- The aim is to help yards in finding more profitable markets through innovative products. No other industry has this form of aid.
- Max. 20% aid allowed on the innovative contents. A study has shown that European ships have ca. 20% innovative contents on average.
- Both product and production technology are covered, but innovation has to go beyond the “state of the art” in the EC shipbuilding industry.
- Eligible costs can cover the full range of shipbuilding activities, from initial design to sea trials, but monitoring will be strict.
- THIS WILL NOT BE A NEW FORM OF OPERATING AID!

Shipbuilding Policies

Competitiveness

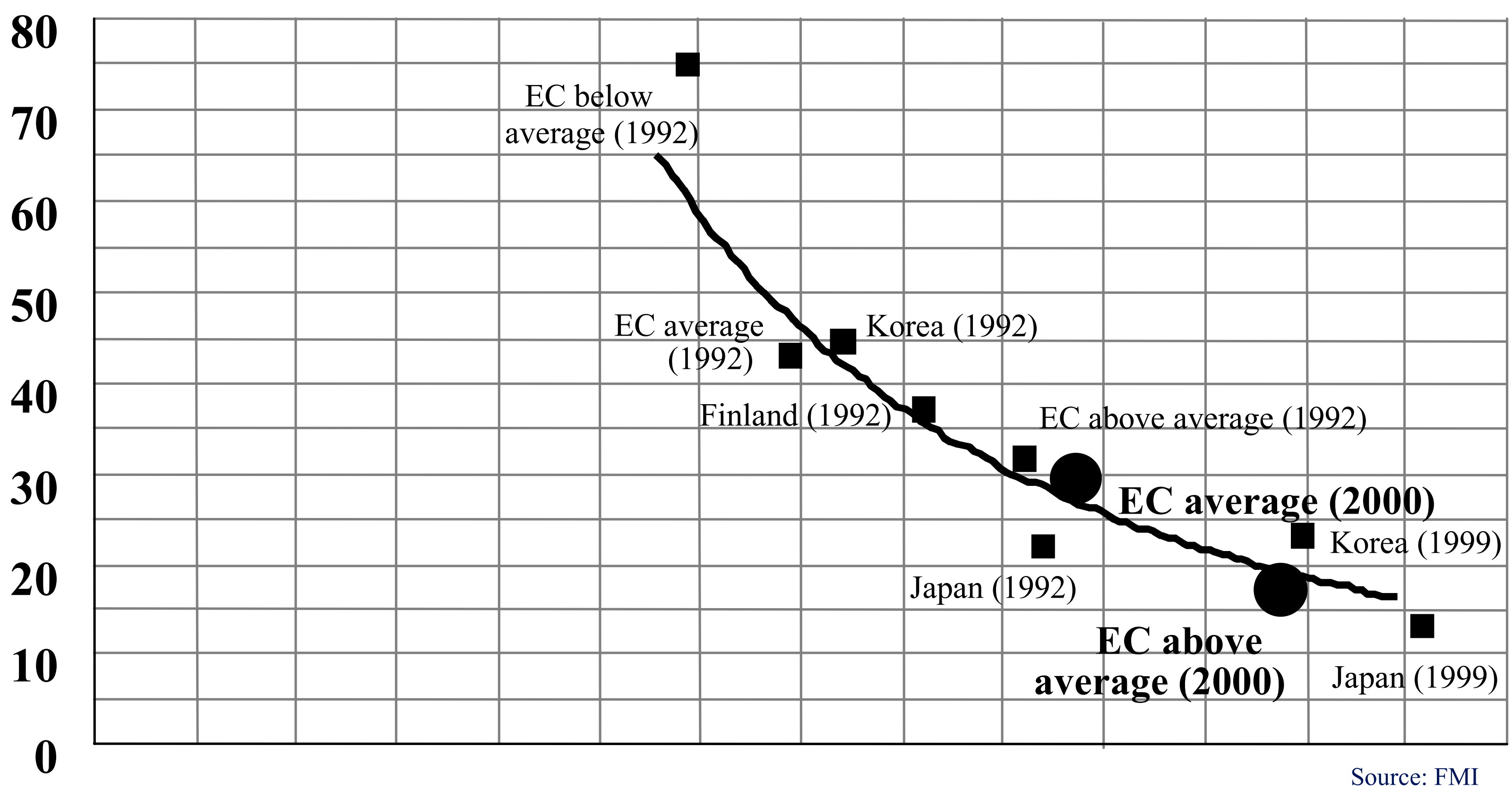
Key Issues

- Price, price, price: Productivity is key (see data)
- Strong yard - supplier - customer relationship, in particular in high-value segments, providing “solutions”, not products
  - ➔ high level of outsourcing (cruise ships: 85%)
- Shortest building and delivery times
- Reliable delivery on schedule, but with max. flexibility
- Building quality, often exceeding class requirements
- Assuring re-sale value
- Pro-active marketing, specialisation on certain shiptypes
- Good after-sales services

Shipbuilding Policies

Competitiveness

Yard Productivity (large yards) in man-hours/cgt



Source: FMI

Sectoral Analysis

- Study on the Economic Impact of Maritime Industries in Europe (EU + Norway), completed in February 2001
  - All maritime sectors covered
  - ca. 1.545.000 persons directly employed (1997)
  - ca. 900.000 persons indirectly employed (1997)
  - 159 billion EUR turnover (1997)
  - 70 billion EUR direct value added (=1% of GDP)
  - 41 billion EUR indirect value added
  - Shipbuilding: ca. 140 yards, ca. 9.000 suppliers, ca. 55.000 persons directly employed in newbuilding (1999)
  - Study available on internet: http://europa.eu.int/comm/enterprise/maritime/index.htm

Shipbuilding Policies

Competitiveness

R&D Support

- **Key Action "Marine Technologies and Land Transport" in the 5th R&D Framework Programme 1998-2002**
  - **Focus on advanced ships, economic means of transport and the rational and sustainable exploitation of the seas**
  - **128 Mio EUR for "Marine Technologies", almost entirely spent**
  - **Based on elements in the industry's R&D Masterplan of 1998**
- **Surface Transport Programme in FP6, 2002-2006, 610 Mio EUR**
- **Study on the Current Extent of Maritime RTD in Europe, completed in Feb. 2000 (available on internet: http://europa.eu.int/comm/enterprise/maritime/index.htm)**

◎Industrial Policy framework

Key elements

- implement the EU’s longer term strategy for economic, social and environmental renewal as brought forward by the Lisbon Council of March 2000
- Communication on “Industrial Policy in an Enlarged Europe” (COM(2002) 714 final of 11.12.2002)
- Communication “Fostering Structural Change: An Industrial Policy for an Enlarged Europe” (COM(2004) 274 final of 20.04.2004)

◎Industrial Policy framework

Some details:

Communication on "Industrial Policy in an Enlarged Europe"

- **Competitiveness to be driven by knowledge, innovation and entrepreneurship**
- **Industrial policy has to be horizontal in nature, with sectoral applications**
- **Industrial policy to frame trade, competition, R&D and internal market policies**
- **Increasing intertwining of manufacturing and services to be recognised**
- **Regional (SME) clusters are key for economic success and innovation**
- **Enlargement countries so far short on this structural advantage**
- **ICT as facilitating element**
- **Europe still poor in translating existing knowledge into products and services**
- **Methods: technology platforms, innovation centres, business incubators, fiscal incentives for innovation, regional policy, IPR protection, national policies on taxation and social regulations, scoreboard & benchmarking, simplified and predictable regulations on EC level**

◎Industrial Policy framework

Some details:

Communication "Fostering Structural Change: An Industrial Policy for an Enlarged Europe"

- **Analysis of risk of de-industrialization, outsourcing and low productivity growth**
- **Europe still spends too little on R&D, shortfall is mainly in the private sector**
- **The "China issue" (relocation of manufacturing)**
- **Opportunities in the enlargement countries for labour-intensive manufacturing**
- **Addressing competitiveness through better regulation (consultations, impact assessment), unifying Community policies, innovation support (business clusters, HR, IPR, governance), ICT take-up, extending the internal market (e.g. in the area of services), TENs, promotion of global trade rules and export of internal market rules, sectoral initiatives (e.g. LeaderSHIP 2015, more sectors to follow)**

Shipbuilding Policies
Competitiveness

◎LeaderSHIP 2015

An initiative by the EU shipbuilding industry to secure its future

Key objectives

- **A strong position in selected (higher-value) market segments**
- **World leadership in product and process innovation**
- **Strong customer orientation**
- **Development of a networked industry structure ("cluster")**
- **Optimisation of production processes and increased focus on knowledge-based products**

LeaderSHIP 2015

An initiative by the EU shipbuilding industry to secure its future

Action items

- Establishing a level playing field in the world shipbuilding market
- New and better R&D incentives, tailored to the shipbuilding industry
- Strengthening of intellectual property rights
- Better financing schemes, fitting to the needs of the shipbuilding industry
- Strengthening of maritime safety and an integrated EU transport policy
- Building a European defence identity (naval construction / procurement)
- Support for skill development
- Industry consolidation

◎LeaderSHIP 2015

An initiative by the EU shipbuilding industry to secure its future

Structure and Timetable

- **Advisory Group Chairman: Commissioner Erkki Liikanen**
- **Advisory Group Members: 6 Commissioners, 2 MEPs, 10 CEOs, representatives of trade unions (EMF) and marine equipment manufacturers (EMEC)**
- **Report by the Advisory Group issued in October 2003, available on internet in all official languages plus Polish:** **http://europa.eu.int/comm/enterprise/maritime/leadership_2015.htm**
- **Commission Communication issued on 21/11/2003 (COM(2003) 717 final), available at the same web address**

Shipbuilding and Maritime Policies

Maritime Industries Forum

- Participants from maritime industries and services, EU- and EFTA governments, enlargement countries, the European Commission and the European Parliament
- New MIF created in 2000 and approved in Helsinki in June 2000 under the chairmanship of Commissioner Liikanen
- Definition of maritime related policies
- Identification of priority areas and types of actions to be developed
- Improvement of the competitiveness of the EU maritime industries
- Development of methods for the implementation of selected actions
- Last Plenary Session in Naples, 28-29 October 2002, next event in 2005 in Germany (?)

Benchmarking / E-commerce / MARIS

- **Study on Competitiveness and Benchmarking in the Field of Marine Equipment, completed in Dec. 1999**
  (available on internet: http://europa.eu.int/comm/enterprise/maritime/index.htm)

- **Study on E-commerce for shipbuilding completed in 1999**
  (available from ENTERPRISE DG / E-5)

- **G-8 Maritime Information Society Initiative (MARIS) 1995-1999, continued on EU level until end 2001, now terminated**

EU Maritime Policies

Enlargement

Sector Studies

- **Study on the Shipbuilding Industry in Bulgaria, Latvia, Lithuania, Romania and Slovakia, completed in Nov. 2000**
  (available on internet:
  http://europa.eu.int/comm/enterprise/maritime/index.htm)
- **Study on the Recreational Craft Sector in Bulgaria, Estonia, Lithuania, Poland, Romania and Slovenia, completed in Dec. 2000**
  (available on internet:
  http://europa.eu.int/comm/enterprise/maritime/index.htm)
- **Study on the Shipbuilding and Shiprepair Sectors in Poland, Estonia, the Czech Republic, Hungary and Slovenia, completed in Dec. 2000**
  (available on internet:
  http://europa.eu.int/comm/enterprise/maritime/index.htm)