WHY A COMMUNITY RECONSTRUCTION PLAN FOR THE SHIPBUILDING INDUSTRY?

Address by
Mr E. Davignon,
Member of the Commission
of the European Communities,

at the meeting
organized by the
Bureau of the Antwerp Shipping Association
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Mr Chairman,

Ladies and gentlemen,

1. Introduction

It is a great privilege for me to be invited to address you on the problems of the shipbuilding industry. I regard this as a sign of your interest in the European cause. In particular, it affords me the opportunity to give this audience drawn primarily from the shipping world an account of the approach the European Commission feels should be adopted to steer the shipbuilding industry through the present crisis.

2. Shipbuilding in the vortex of structural change

Things are not too good in the shipbuilding industry, as you know.

Although the level of production world-wide is still fairly high, employment in this sector is declining sharply. The well-filled order-books of nineteen-seventy-two and seventy-three are getting alarmingly empty, and new orders in nineteen-seventy-seven amounted to no more than half of capacity.

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A number of firms in Europe, and still more in Japan, have been finding themselves in difficulties. And in the years ahead this is going to happen more and more.

But it is not only the shipbuilding industry that is in trouble. Other sectors too are up against serious problems, the shipping sector among them. All of them are suffering from the effects of inflation, recession and balance-of-payments difficulties, coupled with monetary disarray. At the same time, these problems are indissociably linked with the structural changes in progress in the industrialized countries, and in particular in Europe.

I would list three factors:

(i) higher production costs, in consequence more especially of higher energy, raw-materials and labour costs;

(ii) the changing nature of demand, to do partly with the increased attention being paid to environmental conservation and to more rational use of energy and raw materials;

(iii) the emergence of new countries as trading partners, and in some cases as formidable competitors.

These changes are making it necessary to effect major adjustments in Europe's industry:

(a) the structures of industry need to be better tailored to the new market requirements;

(b) a structural policy will have to be framed to promote new industrial activities in place of those no longer viable;

(c) an active commercial policy will be needed to underpin this structural policy. It must not be a protectionist one, for that would involve dire dangers for the Community, as the biggest trading bloc in the world, but it could suitably include a number of defensive measures to prevent distortions and over-rapid changes in the industrial pattern. I need only mention the measures taken with respect to steel and textile imports.

The shipbuilding industry is something of a special case in this connection, inasmuch as the conventional weapons of commercial policy are here of little or no effect. To impose import duties on ships or prohibit their import would merely be an incentive to our shipbuilders to register even more vessels under cheaper flags.

So in tackling the problem of the shipbuilding sector the focus must be on the adjustment of structures and of capacity. But since the shipbuilding problem is a world-wide one, and moreover indissociable from the shipping side, any strategy for dealing with it must also relate to international cooperation and to shipping policy.

A further point is that developments in the shipbuilding sector are proceeding at such a pace that there is not the time to wait for a comprehensive structural policy. It is vital that Community action here should be mounted right away.

3. Community action

Why should there be a Community reconstruction plan?

(i) Well, firstly, the industry, and the national authorities, tend too much to concentrate on coping with short-term difficulties, and do not usually bother their heads with the fact that the crisis ought to be used to make the industry competitive again. They reckon that aid making it easier to obtain orders will serve to keep the impact of the crisis to a minimum. This is a grave and costly mistake.

In a market where sales in the next five years will be not much more than half what the industry can produce, not everybody can hope to capture the lion's share, particularly when much of our shipbuilding industry is less competitive than its rivals, notably Japan and a number of newcomers such as South Korea, Taiwan and others.

If our industry chooses nevertheless to pin its faith to Government support, it should be borne in mind that those rivals can wield the same weapon, and perhaps even stronger ones.

(ii) Secondly, the Treaty of Rome requires the Commission not to let national aid give rise to distortions in competition. Now this is an impossible task without a coherent picture of what is to be done about the shipbuilding industry in the Community. The Commission fully realizes that aid is necessary, but in its view aid can only be permitted if calculated to serve the interests of the Community shipbuilding industry as a whole. That this is essential is the more apparent when we consider the gigantic scale of the financial support extended to the shipbuilding industry in the Member States. In nineteen-seventy-six, so far as can be computed, it amounted, paid direct or via the shipowners to something like six hundred million units of account. I do not think it can very well be claimed that the free-market principle can perform its selective function in this sector. With such a measure of Government intervention there <u>must</u> be coordination if one Member State's policy is not to clash with or altogether ruin another's.

Furthermore it must be remembered that not one Member State, for all its efforts, has managed to shield its industry from the crisis. Once ends and means were geared to one another within a broader framework, the industry would be better able to stand up to the crisis.

(iii) Andthirdly, the fact is inescapable that no Member State on its own can get Japan to scale her capacity down to a more realistic level. Only if the Community can speak with one voice is there the faintest chance of doing so. But then it too would have to pledge itself to bear its share of the crisis.

4. Strategy

The Commission is well aware that there are great differences between Member State and Member State, and that there would be no sense in trying to institute a single standard shipbuilding policy for the whole Community. What it does want is that the several national facilities and instruments should be so used as to mesh into a Community strategy, aimed at cutting back capacity, improving our yards' productivity and creating alternative employment for workers thereby rendered redundant, and to some extent influencing demand, and at international cooperation. No ready-made prescriptions there, unless that each problem needs to be tackled according as, how and when it arises.

The Commission plans to pursue in this sector a policy of consultation and cooperation involving all those concerned - the authorities of course, but also the industry, the unions and the shipowners.

5. Adjustment of capacity and structures

The most important feature of the Commission's projected strategy is the adjustment of the Community shipbuilding industry's production capacity and structures.

The industry's troubles are due to two things: first, the steep drop since the oil crisis in demand for, in particular, large tankers and bulk carriers, which is not expected to pick up again until the mid-eighties, plus such massive capacity that a glut would have developed even if there had been no economic crisis; and secondly, the fact that our industry is less competitive than Japan's and those of the other new producer countries I mentioned just now - and not only by reason of abnormal prices or factors outside its control.

And so the focus in reconstruction must be on tailoring production capacity to market prospects and on making our yards more competitive.

Tailoring capacity to market prospects is necessary because so severe and long-lasting a crisis has structural implications. Even if demand does revive early in the next decade, we can hardly expect the European shipbuilding industry to be the first to reap the benefits given its high production costs. What is more it must be borne in mind that the shipbuilding countries other than Europe and Japan are making a tremendous push for the market, by means inter alia of low labour cost subsidies, protectionist policies and/or non-commercial prices.

Preserving existing Community capacity thus means putting off the problem of actual reconstruction, which only makes it even harder to solve. Government financial aid which is having to be provided more and more to keep the surplus capacity going cannot be forthcoming to improve the capacity that ought to be maintained. The orders going to the superfluous yards are lost to the most promising ones, so that they too are unable to operate under optimum conditions.

And again, preserving too much capacity encourages speculative orders, attracted by the artificially low prices. These orders increase the overcapacity of the fleet and in their turn further prolong the shipbuilding crisis.

Merely putting surplus capacity on ice is not enough, for with every upturn in the market that capacity is reactivated and impedes any real improvement in the situation. The Commission is of the opinion that acceptance of capacity cutbacks cannot be left purely to the operat of market forces, cannot be taken for granted as something that is bound to happen anyway.

A reconstruction yielding a healthier industry cannot just be awaited, it has got to be organized. A general sauve-qui-peut would mean disorderly contraction and could involve yards which thoroughly deserve, on economic, social and regional grounds, to continue in operation.

6. The quantitative indicator

Accordingly, the Commission has submitted a proposal to the Council of Ministers for the establishment of a quantitative indicator for the production capacity considered desirable. This is purely a crisis instrument, and intended moreover to be updated from time to time in line with developments.

The level it would be fixed at would be determined in consultation with the authorities and the industry, on the one hand reflecting the resolve of the Community to preserve a capacity commensurate with the major importance to it of external trade, and on the other bearing some relation to the market outlook for our industry, which we have provisionally estimated at rather over half the production of nineteen-seventy-five.

The indicator would not be binding: for the industry, with which responsibility for effecting its reconstruction would primarily rest, it would be in the nature of a guideline. But its function would be first and foremost to serve as a point of departure for the policy of the Member States and of the Community.

7. Social measures

The alignment of capacity on this indicator will be seriously complicated by social considerations. The Netherlands, where a plan for the shipbuilding industry has been drawn up, is witness of this. So it is vital that the process should be accompanied by supporting social measures and the creation of alternative employment. Accordingly the Commission has proposed that the Community should contribute through its Social Fund, its Regional Fund and other monies specially allotted or to be allotted to it by the Council.

8. Improvement of production structures

Though the pruning of capacity is essential if the industry is to be made more competitive, it does not per se improve productivity. To do that there will need to be modernization of enterprise structures, care being taken, however, to ensure that this does not cause total Community capacity to exceed the desired level. Renewal of plant will of course be involved, but perhaps even more important will be moves towards better production methods, better industrial relations, better management, automation, inter-yard cooperation, standardization, and so on, and also more concentration on research and development. Only by higher productivity and the successful marketing of new high-quality products can our industry offset its higher production costs and secure its rightful place in the market.

Here too responsibility rests primarily with the firms themselves. In many cases it will only by possible to carry the measures concerned into effect if they can count on financial aid from the public purse, but national-level aid must be consonant with the Fourth Directive on shipbuilding aid now awaiting the Council's approval, which provides that such aid must not be such as to make for an overall increase in capacity.

9. Influencing demand

The second facet of the Commission's proposed strategy is action with respect to demand. Not protectionist action, I hasten to say, nor, I would add, is there any idea of making the shipowners get the shipbuilders out of their troubles by compelling them to place orders. All the same, I would point out that the shipowners' and the shipbuilders' interests are, in the long term, parallel. After all, it is very much to the shipbuilders' interest that the shipowners should be competitive and prosperous. A prosperous shipowner is a potential customer. Our shipyards can supply him provided he is competitive.

Even though the Community accounts for one-third of world trade, it is a fact that its merchant tonnage has shrunk from twenty-nine percent of the world total in nineteen-sixty five to nineteen percent in nineteen-seventy-seven, mainly in consequence of the sudden advent of the cheap flag countries.

To face up to these developments and give Community shipowners a better chance in the sea transport market, it is important to act more vigorously against the various forms of unfair competition - against vessels that do not meet international safety standards or comply with minimum requirements as to working conditions, to say nothing of the systematic undercutting of freight rates by the fleets of the State-trading countries. The Community should give a push to international moves in this direction, or if these do not produce results should move itself.

10. International action

The third facet of the strategy the Commission is advocating is international action.

The crisis being world-wide, obviously it cannot be dealt with by the Community alone: international cooperation is indispensable. This has been recognized at OECD in the General Guidelines for Member States' Policy on Shipbuilding of May nineteen-seventy-six adopted by the Western European countries and Japan, which acknowledge the need to adjust production capacity to market prospects. This statement of principle has, however, not yet been translated into more concrete agreements.

Admittedly talks with Japan, under pressure from the Community and elsewhere, have resulted in Japan's undertaking to monitor the prices of the ships she exports more strictly and to slap on a five percent increase, and in her expressing willingness to observe some measure of voluntary restraint as to exports, but the effect of these steps must be regarded as very limited. If the distribution of orders between Japan and Western Europe for nineteen-seventy-seven works out better than for nineteen-seventy-six, that is largely due to national aid and the movements of the yen.

It is no good thinking international cooperation on its own will produce a permanently better distribution of orders. The Community ca only consolidate its position in the world market in that respect by action to make itself more competitive.

As regards adjusting capacity to the state of the market, OECD cooperation presents a rather more favourable picture. Japan has issued a recommendation to her forty-five biggest yards to cut back their activity to an average seventy percent. That, though, only means putting capacity on ice, not actually reducing it: there are those in the Japanese industry who are calling for a still lower rate of utilization, and even the word closure is no longer taboo. In Swed a reduction in capacity has been enacted by law, but now a commission has been set up to consider whether further pruning is necessary; in Norway too a State commission has concluded that substantial cuts in capacity are needed.

Obviously, the Community cannot demand of its partners that they make capacity cutbacks if it is not prepared to do its own part. Japan will be the more disinclined to scrap sufficient of her capacity so long as she feels sure her industry has a competitive edge over Europe's.

11. Conclusion

My first conclusion from this state of affairs is that there is no way out for the shipbuilding industry as long as the industry and the authorities in each country think they can cope on their own and their competitors can carry the baby.

What is needed is solidarity - first and foremost Community solidarity, perhaps embodied in a Community-agreed strategy, and also international solidarity.

And my final conclusion is that the crucial problem in adjusting capacity and making our shipbuilding industry more competitive is the need to create alternative employment. If we do not succeed in this, and the orderly restructuring of the sector is thereby doomed to failure, the shipbuilding industry will suffer even more than it need, with more jobs going by the board than if action were taken in time.

We must bend our every effort to prevent such a worsening of unemployment.