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## POLICY GUIDELINES FOR RESTRUCTURING THE SHIPBUILDING INDUSTRY

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(Report by the Commission)

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SUMMARY

The medium-term outlook for demand for new ships ('newbuildings') shows no likely improvement in the market before 1985/86; the shipbuilding industry's problems are not, therefore, about to diminish; they might even worsen in the short term. Community yards are affected by over-capacity like their chief competitors, but also face other difficulties.

The market situation is such that capacity reduction alone would not suffice to solve the problems. To restore its fortunes the industry's lifeline, considering previous capacity reduction, must generally be qualitative adjustment; above all this means improving its competitiveness and profitability.

Productivity improvement is within the industry's capabilities; it is observed that - more than in the past and apart from measures aiming at restructuring and at cutting capacity where still necessary - the industry must concentrate on more extensive cooperation and take more advantage of the Community dimension; this is with a view to, in particular, consolidation of the results of earlier restructuring.

## Policy guidelines for restructuring in the shipbuilding industry

### I. The crisis continues

#### 1. The world market

##### 1.1 Persisting imbalance of supply and demand

World shipbuilding capacity is now 20 million cgrt, of which 3.5 million is in the Community; this is after a reduction in Japan and Europe of some 30% in terms of facilities and 40% in terms of labour since the crisis began some ten years ago. It is still about 40% above demand (14 million cgrt), which might even drop further in 1982 and 1983 (to 12 million cgrt). The latest forecasts show no recovery in demand until 1986 - and a slow recovery even then - owing in particular to the adverse economic climate and severe over-capacity in the shipping industry. The restoration of supply/demand balance may also be considerably hampered by new shipbuilding capacity in countries which are active recent entrants to the industry. As a result, it is probable that supply and demand will not be back in balance until the end of the decade.

In addition to suffering from over-capacity - equivalent to twice the Community's aggregate capacity and almost equivalent to Japanese capacity - the market is likely to be affected by changes in the pattern of demand which seem likely to be detrimental to European shipbuilding. Since the slump in demand is particularly acute in respect of tankers and bulk carriers, which are the mainstay of Asian yards, these will increasingly turn to the more sophisticated ships which at present provide most of the work of European yards, so putting these under greater pressure. And should the Community merchant fleet continue to be eroded by outflagging (i.e. by shipowners exercising their freedom to register their ships under lower-cost flags), shrinkage of this market may affect the European yards, which sell about 65% of their output to it.

## 1.2 The declining trend of prices

Leaving aside a small number of highly sophisticated ships, prices are an external factor for European yards: with their market dominance and competitiveness the Japanese yards, together with the highly competitive Korean yards, determine prices on the world market. European yards are therefore obliged to match these prices, which do not reflect their costs, and the difference is made up in whole or in part from public funds.

After hardening slightly in 1980 prices have begun to decline again as competition between yards has intensified; according to recent information, Japanese and Korean yards are even said to be accepting some orders at a loss.

Exchange-rate instability too is reflected in relative price levels and hence the way orders flow, since ships are usually priced in dollars on world markets. It has been found several times, for example, that a weak yen relative to the dollar causes orders to flood into Japanese yards.

## 2. Situation of the Community industry

### 2.1 Trends in capacity and workforce

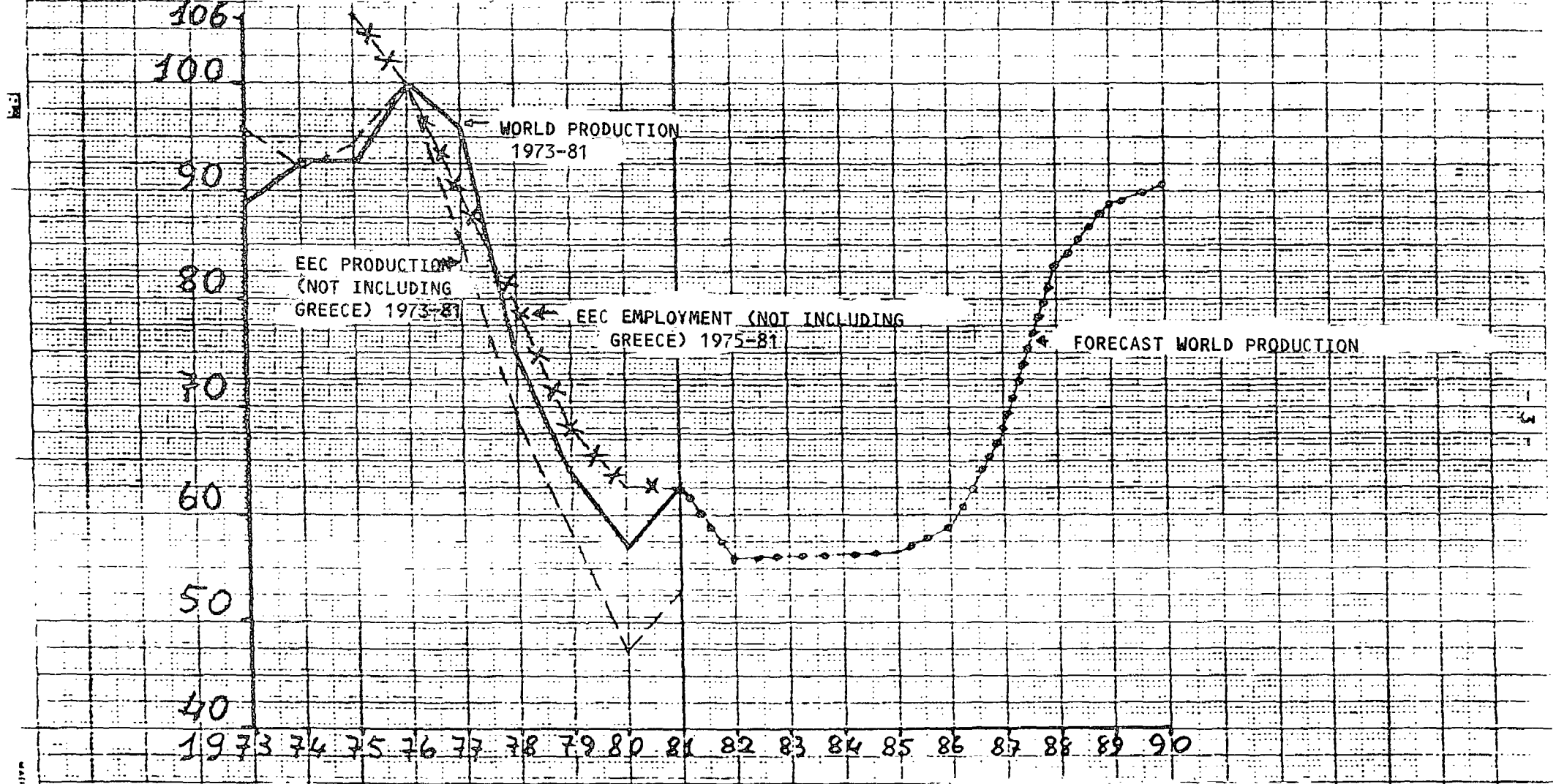
Taking the Community aggregate, reductions between 1976 and 1981 were 48%, in terms of production, and 40% in the workforce (with variations between Member States, of course). Most of these reductions and job losses were concentrated in areas where industrial structures are undiversified or declining. There is thus a very acute sensitivity to economic and social developments in these areas. The Commission is keeping a close watch on developments in this respect and will give in due course precise information when it becomes available. The salient features of the trends in Member States are given in Annex I.

In the last two years the rate of decline in the workforce has slackened, except in Belgium, Italy and the United Kingdom; in Denmark the workforce actually grew. Between 1980 and 1981 only in Italy and Belgium was there a further reduction; in Germany, and in the United Kingdom to a lesser extent, there was an increase.

Accurate data specifically relating to the trimming of production facilities are not available. The rundown of facilities in the Community is generally estimated to be about 30%, but operational capacity in this sector depends on the level of the workforce and when this is taken into account effective capacity has been reduced by almost 40%.

SHIPBUILDING (NEWBUILDINGS): WORLD AND EEC PRODUCTION INDICES (COMPLETIONS, cgrt) AND EEC EMPLOYMENT INDEX (NOT INCLUDING GREECE)

BASE: 1976 = 100



From various sources, chiefly Lloyd's Register of Shipping in respect of production, and national sources in respect of employment.

Forecast world production: estimate based on AWES figures.

## 2.2 Competitiveness

In shipbuilding estimates of productivity should not be based only on the statistical relationship between output and labour. Some factors which directly affect shipyard efficiency, such as the shortfall in workload relative to capacity, and the varying degree of inelasticity between the size of workforce and size of workload, may give a false impression of the performance of which shipyards are intrinsically capable. The varying significance of these factors obviously has an impact on costs which differs from case to case. Even though the industry in the chief competitors of Community yards also suffers from a gap between workload and capacity, it is generally much more flexible in adapting to the situation, so that a considerable part of the Community shipbuilding industry is below the level of competitiveness of its main rival, Japan, where for example they are introducing robots, whereas in the Community overmanning due to several constraints, particularly in the social field, still pushes up costs.

All these things create an increasingly pressing need for the Community to concert and coordinate its resources in order to restore the industry's efficiency. This will be a means of combating at the same time:

- (a) the waste of human, technical and financial potential;
- (b) the incompatibility of defensive action by the individual States with the Community interest; and
- (c) the unproductive use to which - in varying degrees - aids are put.

With regard to cost factors, differences in respect of materials inputs do not seem an insurmountable obstacle for the Community industry, which is chiefly handicapped compared with its principal competitors by enjoying less upstream integration and less component standardization, resulting in higher component prices. Hourly labour costs differ substantially between Member States; on the average, basic wage scales are no higher than in Japan, but social security charges are higher in the Community. It is hard to quantify the impact of this difference on ship prices; according to some sources it might be 5-10%. In Korean shipyards, however, labour costs are considerably lower (lower wages, limited social security and less health-and-safety-at-work provision).

Asian yards derive a number of benefits from their social, financial and political environment which can not always be gauged but do help to widen the competitiveness gap. In Japan the factors in play include, among others, the higher number of hours worked in total over the year, a more flexible attitude towards working time, lower absenteeism, the hiving-off of certain activities to subcontractors whose labour is less expensive than regular shipyard employees, shorter holidays (often not taken) and easy credit for ship purchase. In parallel to those factors which favourably influence quotations from yards in some third countries, the Community shipyards profit in view of their location from certain advantages in their relationship with shipowners in the Community: easier survey of ongoing work; the ability to have modifications made whilst work is in progress, etc. These advantages tend indeed to be most important for ships of advanced technological content and are only a real advantage if the Community shipyard meets its delivery date.

### 2.3 Structures

In Europe shipbuilders are less integrated, either with large groups or each other, than in Japan: with the exception of Italy and the United Kingdom, where almost the entire industry is nationalized and therefore in theory an integrated whole; there are some links with the steel industry in Germany; with two large industrial groups in France; and with the shipowners in Denmark - though all this chiefly applies to the big yards. The many remaining small and medium-sized shipbuilders tend, however, rather towards individualism.

The main line of work of Community yards is the building of new merchant ships; their endeavours to diversify since the crisis began have resulted chiefly in an expansion of warship building and ship repair; their activities outside the marine field have been slow to develop - in contrast with countries like Japan and Korea where such things as oil- and gas-rig construction and the building of floating factories have expanded far more.

The nature of the crisis is such that the yards worst affected by it are those designed to build large, unsophisticated ships (crude-oil and bulk carriers); there are about ten in the Community but they employ over 30% of the industry's workforce.



In technology, Community yards are generally well placed, although in some fields Asian yards are now edging ahead. In organization, and in particular input procurement, standardization, and sales and marketing, Community yards - chiefly owing to their individualism - lag behind their competitors somewhat.

#### 2.4 Ship repair

The last three years have seen some increase in the ship repair business, the chief sources being re-engining (propulsion conversion for greater economy), 'jumboization' (enlarging existing ships for economies of scale) and ship conversions for compliance with IMO safety and pollution-control standards. Some yards have been able to diversify in this way to cushion the effects of the fall in the newbuilding market. At present, however, the ship-repair market is deteriorating, with work increasingly confined to routine maintenance, and some over-capacity seems to be developing. This situation might last for two or three years, after which the prospect of a recovery in shipping should yield work on the recommissioning of ships, this being generally done ahead of needs.

	1976	1977	1978	1979	1980	1981	1982
Ship repair EEC: turnover <sup>1</sup> (million ECU)	1 385.7	1 287.7	1 161.09	1 278.66	1 467.15	1 732.99	-----
Workforce:	---	62 486	58 214	54 542	53 081	51 514 <sup>2</sup>	-----
Ships laid up <sup>3</sup> World: ('000 grt)	21 231	---	25 486	7 490	5 371	10 399	35 292

<sup>1</sup>Not including Ireland.

<sup>2</sup>Not including Greece, where the labour force numbered 6 331 in 1981.

<sup>3</sup>In October each year.

Sources: Ship repair: AWES; Ships laid up: Institute of Shipping Economics, Bremen.

The location of repair yards on the main shipping routes and close to the busiest ports is a big factor in determining how much business they secure. Moreover, although international competition may not be very intense for minor maintenance or repair work, it is stiff for large repair and conversion jobs. In the latter field, particularly for re-engining, Asian (particularly Japanese) yards have often been the most competitive in recent years. The reasons for this are now being investigated in greater detail.

## 2.5 Situation in areas other than shipbuilding and repair

The building of oil- and gas-rigs, which expanded in 1979-81, also provided the shipyards with some scope for diversification. But the downturn in the oil business and the ongoing world economic depression have put the rig market in the doldrums; the outlook in this area hardly provides grounds for optimism.

There has been little expansion in the construction of floating plant (factories, etc.) in the Community, unlike the position in the Asian yards. Diversification out of marine work is extremely difficult and there is little of significance to record. Reliable data on turnover or hours worked in the shipbuilding industry are not available, so that these factors cannot be evaluated more precisely.

Building of fishing boats and pleasure craft is in a generally satisfactory situation. It is usually done by small yards which specialize in this work, so that the relatively good health of this segment of the market provides no relief for yards building seagoing ships. But the fact that these branches of the industry have no acute problems does not mean that their future is assured; it can be if they exercise unremitting care to safeguard their strong points and strengthen their structures in order to do so.

### 3. Situation in the industry of the main competitors outside the Community

#### 3.1 Other West European countries

The problems are of the same nature as those facing the Member States, though there may be variations in their severity. Reactions differ greatly between countries: some have carried out a complete "purge" of their shipbuilding industry (Sweden); others tend to give it maximum protection (Spain); most try to combine the two approaches.

Broadly speaking, European shipyards outside the Community are in the same position as regards competitiveness as those inside it, though sometimes with labour-cost advantages in the southern countries. These countries also form a common front with the Community to face Japan, within OECD, and in the Association of West European Shipbuilders (AWES), which represents the industry vis-à-vis the Japanese.

Production 1976-81 (million cgrt)

	1976	1978	1979	1980	1981	Reduction, 1976-81, %
Community	5.1	3.5	3.0	2.4	2.7	48 %
Rest of AWES	3.2	2.3	2.1	1.5	1.7	45 %

#### 3.2 Japan

The Japanese shipbuilding industry has not been impervious to the crisis: as orders slumped, competition between yards threatened to have adverse effects; at the instigation of the authorities the yards therefore took

steps together to adjust to the crisis, in particular by reducing capacity, limiting utilization of the remaining capacity within a crisis cartel, and holding prices. By the same token, Japan was able to demonstrate at international level that its conscience was clear, notably at OECD, where it discussed these questions with the European countries.

From fiscal year 1982, however, the crisis cartel - which had limited output from the group of largest yards to 50% of its maximum pre-crisis level - was dissolved, with the result that all its estimated 7.5 million cgrt of remaining capacity has been unleashed on the market.

At present official guidance on production and prices is tacit rather than explicit, but the Japanese industry seems to be acting with a degree of restraint by not increasing its market share any further, though it is already no less than 40%.

### 3.3 Korea

The expansion of Korean shipbuilding capacity is and has been rapid: in just a few years it has doubled to its present level of 4 million grt/year and is planned to reach 6 million grt by 1986. Production is also climbing fast, though less rapidly - it was about 900 000 cgrt in 1982 (1.4 million grt) - as there were problems in securing orders. Estimated capacity utilization is 50%. The Korean industry has considerable advantages in terms of wage costs but its productivity is still low. After concentrating chiefly on unsophisticated ships (tankers and bulk carriers), Korean yards are now turning towards a range of more sophisticated vessels; for example, they recently won a number of orders for container ships with prices that even the Japanese could not match.

The rise of Korea as a shipbuilding country brings it increasing responsibility for the development of the crisis. Talks have therefore been opened with it within the OECD Working Party on Shipbuilding and at Community level. These talks must be pursued in greater depth.

## II. Community initiatives for accelerating restructuring Council resolution of 19 September 1978

The resolution affirms the Member States' political commitment to the rationalization of the shipbuilding industry. It confirms the need for

restructuring the sector without losing sight of the essential interests of the Community and it places emphasis on the prime role of the industry itself in this respect, as well as on the desirability of support from the authorities, particularly as regards employment where, on the one hand, it should be aiming at the creation of new jobs to match those progressively lost and, on the other hand, at limiting the social consequences for those workers affected by a reduction in the industry's activity. This stand taken by the Council in its resolution still provides an overall frame of reference for Community action and for assessing restructuring plans.

1. Internal instruments and procedures

1.1 Fifth Directive on aid to shipbuilding

Directive 81/363/EEC on aid to shipbuilding establishes a Community discipline for the granting of direct or indirect state aids to shipbuilding which is based on Articles 92(3)(d) and 113 of the EEC Treaty; this discipline is intended to promote the rationalization and restructuring of this sector which has been seriously hit by the crisis.

The Community enacted this scheme to control public aid to the industry in order (a) to prevent distortions of competition, which might have resulted in uncontrolled intervention, and (b) to ensure that public aid to the industry should provide support for the necessary restructuring. The Fifth Directive has worked reasonably well, particularly with regard to the degeneration of aids and to rationalization, where the emphasis, having been put initially on quantitative aspects, should now be rather directed towards the qualitative aspects of seeking competitiveness and viability.

The Directive has had less effect on "indirect" aid, e.g. aid to shipowners. It is chiefly in this field that the discipline instituted by the Directive needs to be strengthened.

The implementation of the Fifth Directive has enabled the Community shipyards to maintain, thanks to the permitted state aids, at least a minimum workload. Restructuring has differed from one Member State to another in both the amount

and manner of capacity reduction. In certain cases capacity was reduced by shorter working hours rather than redundancies. Some production capacity has been mothballed rather than dismantled. Not all Member States have put into effect overall restructuring plans aiming at eliminating the least viable yards.

Generally speaking, restructuring as carried out hitherto, has been insufficient, particularly in qualitative terms and the competitiveness of the Community shipyards has not been substantially improved. Some Member States are of the opinion that, as far as the extent of the reduction of their industry is concerned, a threshold has been reached which, for various reasons, they cannot readily consider crossing, in particular as regards employment.

### 1.2 Community aids to fisheries

This is an interim scheme, limited in scope, designed as an incentive for fishing-boat owners to build or modernize certain types of craft 12-24 metres in length. The Council has decided to allocate 30 million ECU to this action for 1982<sup>1</sup>.

Between 1971 and 1977 assistance of this kind amounted to 62 million ECU in respect of 347 vessels. In the period 1978-81 the total was 66 million ECU in respect of 1112 craft (50% newbuildings; the earlier period these accounted for almost 100%).

Although not intended to help the shipyards, the scheme has nevertheless been of benefit to the Community yards in question - almost all of which, moreover, are small or very small. (Orders for fishing boats of 100 grt and over amounted to only 100 000 cgrt in 1981, or 4% of the total of 2.5 million cgrt ordered from the Community industry).

### 1.3 Social Fund

As one of the industries undergoing conversion, shipyards are entitled to priority for aids from the Social Fund. The Commission approved applications for aid from the shipbuilding industry for approximately 11.5 million ECU in 1980 and 9.5 million ECU in 1981.

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<sup>1</sup>Regulation No 31/83, OJ L 5, 7.1.1983;

A proposal put up by the Commission in 1980 for a specific aid for shipyards to come under the Social Fund - income maintenance for elderly workers having to leave the industry - has not been approved by the Council. The estimated cost was 11 million ECU over two years.

#### 1.4 ERDF

The ERDF's impact on shipbuilding has been slight. Aid for investment in shipyards totalled 3.5 million ECU in the period 1975-81.

In 1980 the Council agreed to non-quota funds being specifically allocated to regions particularly hard-hit by the shipbuilding crisis. Some regions in the United Kingdom were designated for the purpose of actions. Assistance envisaged is 17 million ECU over a five-year period. At the end of 1982 the Commission put to the Council a proposal for a second series of actions comprising an increase of the funding of its existing non-quota schemes. This proposal comprises a doubling of funds for shipbuilding, with no change in the regions benefitting, whereas the scope of eligible operations will be extended (SMEs; economic advisory services).

The Commission emphasized in its Communication to the Council on "New Regional Policy Guidelines and Priorities"<sup>1</sup> in particular that regional policy must dovetail with other Community policies.

#### 1.5 EIB

Shipbuilding has only made a limited use of EIB financing. Insofar as investments for this industry form part of an adequate restructuring plan, they will be eligible for EIB financing.

#### 1.6 NCI

The situation is comparable with the situation concerning the EIB but account should be taken of the specific priority to which SMEs are entitled for industrial financing from the NCI.

#### 1.7 Community aids for restructuring

The proposal from the Commission for using Article 375<sup>2</sup> of the general budget in 1979 to aid shipbuilding was not taken up by the Council. As part of the procedure for preparing the 1983 budget Parliament has adopted an amendment from its Committee on Budgets to modify the former Article 772:

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<sup>1</sup>Doc. COM(81) 152 final.

<sup>2</sup>In the 1983 budget this action is headed under item 7720.

- Article 772 (new article) Community aid for industry
- Item 7720 (former Art. 772) Aid for certain crisis-hit industrial sectors
- Item 7721 (new item) Community measures for industrial modernization and development of less developed Member States.

There are at present no appropriations provided for such measures; they could become possible if the budgetary authority were to decide, in the course of the financial year and following a proposal from the Commission, to provide the necessary funds.

#### 1.8 Financial and other support for industry projects

- (a) Community part-financing of a demonstration project on waste heat recovery from a marine diesel engine by organic fluid for shipboard electricity generation<sup>1</sup>
- (b) part-financing under the R&D budget of a feasibility study on a wind-propelled bulk carrier<sup>2</sup>;
- (c) part-financing of a pilot study on the possibilities for standardizing certain components<sup>3</sup>.

### 2. Instruments and procedures in the external relations sector

#### 2.1 OECD Working Party No 6 on Shipbuilding

This Working Party plays a definite role in initiatives aimed at moderating the effects of the crisis through international cooperation with a view to bringing balance into them. It is a forum for meetings with our other European partner countries and Japan. It has thus developed into the setting for detailed discussions between the Community and Japan. Agreements reached within the Working Party are as follows:

- General arrangement for the progressive removal of obstacles to normal competitive conditions
- General guidelines for government policies in the shipbuilding industry
- Understanding on export credits for ships.

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<sup>1</sup>Contribution: 400 000 ECU (partially repayable in principle) towards a total project cost of 1 million ECU (recently decided upon by the Commission and still to be finalized).

<sup>2</sup>350 000 ECU contribution to a project costing 700 000 ECU.

<sup>3</sup>30 000 ECU, which is half the cost of the study.



The Working Party monitors the application of these agreements and trends in supply and demand, and reviews its member countries' policies and measures. It recently agreed to hold initial exploratory talks with South Korea.

But for this dialogue the crisis would in all probability have turned into far more of a free-for-all. For example, the pressures put on Japan when its controls were relaxed early in 1981 have certainly contributed to its resumption of tacit guidance for its shipbuilding industry.

## 2.2 High-level bilateral consultations

Consultations on shipbuilding have been held so far with the USA, with no result; with South Korea - in a preliminary way; and with Japan, this being one of the subjects raised by the Community in the bilateral consultations. The increasing role of Korea in the shipbuilding sector calls for prompt extension of dialogue with it on the subject. OECD Working Party No 6 provides a forum for thorough discussion of matters, in support of the bilateral talks with Japan.

## 2.3 International Maritime Organization

### Memorandum of Understanding on port State control (of ships)

The International Maritime Organization (IMO)<sup>1</sup> is a specialized agency of the United Nations whose task is to encourage the adoption, world-wide, of standards relating to maritime safety, efficiency of navigation, and control of pollution from ships. With this in view IMO formulates and adopts conventions and recommendations which are brought into force when sufficient ratifications are received and then enforced by the States in question, the Organization itself having no powers of enforcement.

IMO conventions include: the 1974 International Convention for the Safety of Life at Sea (SOLAS, in force since 1980) and the 1978 Protocol to SOLAS (in force since 1981), and the 1973 International Convention for the Prevention of Pollution by Ships, as amended by the 1978 Protocol - MARPOL

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<sup>1</sup> formerly IMCO.

(the required number of acceptances was received by 1 October 1982; this Convention will enter into force on 2 October 1983).

Under these conventions tankers will have to be fitted with segregated ballast tanks (SBT), or dedicated clean ballast tanks (CBT), and crude oil washing (COW) and inert gas systems (IGS). Various combinations of these systems are required, with varying time-limits, according to whether new or existing ships are concerned and depending on their tonnage and whether they are crude-oil carriers or product carriers.

On 26 January 1982 the Ministers responsible for maritime safety of fourteen European countries (the Community less Luxembourg; Spain, Finland, Norway, Portugal and Sweden) approved a Memorandum of Understanding on port State control of ships which lays down inspection procedures for ships in the ports of Europe. The Memorandum of Understanding became operative on 1 July 1982. Each signatory authority undertook inter alia to ensure that foreign merchant ships calling at ports in its State comply with the standards laid down in a number of IMO conventions (including SOLAS and MARPOL) and ILO Convention No 147 of 1976.<sup>1</sup>

A Committee has been set up to harmonize procedures and practices, develop and review guidelines for ship inspections, develop procedures for the exchange of information, and keep under review other matters relating to the operation and effectiveness of the Memorandum. The Commission will have a representative on the Committee.

There is a general agreement that while the work necessary to make ships comply with the foregoing requirements should not, as such, provide anything more than a small addition to shipyard workloads, the entry into force of these requirements should result - in view of the massive tanker surplus - in the withdrawal from service of a large number of tankers on which the owners would not consider it worth spending the necessary money - or could not afford to do so. The outcome should therefore be an indirect benefit as the reduction in the over-supply of tankers will decrease the imbalance of the market, insofar as withdrawals from service are followed by decisions to build.

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<sup>1</sup> ILO: International Labour Organization. ILO Convention No 147, the Merchant Shipping (Minimum Standards) Convention, relates in particular to manning, social security, accommodation and working conditions.

Once the Memorandum of Understanding<sup>1</sup> is put into effect it will be very difficult for substandard ships not to be detected (i.e. ships below international standards, particularly in respect of safety and living and working conditions on board).

A small number of European and a few open-registry countries have not yet ratified some of the conventions to be enforced under the Memorandum. Nevertheless the Memorandum is being implemented and early results of inspections are encouraging.

### 3. Consultations with interested parties

There is a regular dialogue between the Commission and the industry. The aim is to promote convergence of approach as regards firms' adjustment actions along the guidelines laid down in the Council Resolution of 1978. The dialogue has not by any means overcome the industry's reluctance to moderate its defensive attitude, but it is helping to make industrial strategies more coherent. It could also promote closer cooperation.

Consultations are held twice a year with workers' representatives within the Community and annually within OECD. Information is exchanged on how matters have developed, enabling both sides to set their course.

Meetings are held with the shipowners as the need arises. They are helpful from the technical angle. The shipowners have so far held back when the question has been raised of their collaborating in a policy to support the shipbuilding industry, but they could be prepared to accommodate to it should our shipbuilders become more competitive. Closer cooperation between Community shipowners and shipyards should be encouraged forthwith, with such aims as to identify requirements, both qualitative and quantitative, optimize ship designs, and, more generally, to identify means of better satisfying the shipowner as a customer.

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<sup>1</sup> Signatory countries have a time-limit of three years for regularly inspecting 25% of ships using their ports.

### III. Essential requirements for restructuring

The foregoing has both made clear the need to step up efforts to adjust to the situation and described recent highlights of problems arising from developments in the shipbuilding industry. Hence the utility of a review (prompted by both the Council resolution of 19 September 1978 and the need for sound administration of the Community Directive on aid) of the priorities required for structural adjustment schemes, having regard also to the increase in efficiency that will result from cohesion of national policies and of company strategies and to the concern to limit social consequences.

The following considerations aim essentially at updating, in the industrial field, the Commission's action, which is mainly concerned with the management of the Directive on aid, as well as making the interested parties aware of new perspectives for action. These points are to be seen as a basis for defining actions and not as a full programme. The Commission will continue, with the industry, the task of devising appropriate actions in line with the positions taken in this document.

#### 1. Implications of capacity reduction

The severity of world over-capacity requires the adjustment of capacity in the Community. This should, as far as the Community industry is concerned and taking into account previous reductions in capacity, be qualitative adjustment designed above all to improve competitiveness and profitability.

On this subject the Commission shares the opinion of the European Parliament, which, in its resolution concerning the extension of the fifth Directive on aid to shipbuilding "points out that reductions in capacity in consequence of the policy for reorganizing the shipbuilding industry in the Community have been severe (and) considers it therefore vital for the tightening up of control over aid to be accompanied by the implementation of a policy of modernizing and defending the Community's shipbuilding industry". In such an overall policy there must be limits to the pruning of Community shipyard capacity, given the strategic importance of having an adequate shipbuilding capability and the social and regional problems this kind of contraction inevitably entails, especially in present circumstances.

Even though as matters now stand capacity reduction is no longer so much to the fore in shipbuilding restructuring policy, it would be unhealthy to try to keep all the Community's shipyards at their present size by substantial subsidies.

However, to promote the Community shipbuilding industry's restoration to real competitiveness by ensuring that its capacity is fully up to date and viable, it may well be that there will have to be further cutbacks where not enough has yet been done in this direction: these could help to make the remaining capacity more competitive following positive action including in particular capital spending on modernizing and rationalizing production.

Also, the Commission must see to it that the effort put into restructuring is fairly shared.

In the present depressed state of demand, better productivity will come not so much from increased production by the remaining shipyards as from cost savings and higher-quality products, the prime conditions for renewed viability.

Now, for further selective reduction to benefit production costs, the remaining capacity would need to draw extensively to itself orders which would otherwise have been spread over a bigger capacity.

In view of the state of the world market and the disparities in production conditions between the Community yards and their main third-country competitors, such a switch could only take place if market compartmentation among Member States were done away with.

As the purpose of restructuring is not to bring supply and demand back into balance but to improve competitiveness, it must be directed to scrapping obsolete capacity and production factors with definitely too little prospect of achieving viability to justify the cost of keeping them going.

Otherwise the Community would be failing to take action which, where it is a matter of consolidating the competitiveness of the yards remaining in operation, could do much to set the Community shipbuilding industry on its feet again, even though it accounts for only a small part of the supply/demand imbalance world-wide.

This is primarily a task for the firms themselves, though authorities in charge of industrial policy should not hesitate to encourage them should they be inclined to hold back. An alternative to the closure of production facilities whose retention can no longer be justified would be more diversification.

At Community level factors could usefully be identified - with the cooperation of the other interested parties - to serve as yardsticks of shipyard viability, in order to get a clear picture of the restructuring effort, particularly where application of the Directive on aid is concerned.

## 2. Priority for improving competitiveness and productivity

Ongoing action to improve competitiveness and productivity is the best way of giving the Community industry a long-term future, since it is operating at present on a world market that is out of balance and where technology transfer has been so rapid that Europe can no longer claim to be pre-eminently the builder of technology-intensive ships.

Industry itself has the prime responsibility for shaping its own destiny and taking such steps as are necessary to this end.

To consolidate the results of capacity reduction requires further steps to be taken by the surviving yards themselves in order to improve their competitive position so as to maintain or strengthen their market position.

Individual efforts must focus on:

- (i) production facilities and methods: their modernization and rationalization; optimum use of workforce and existing expertise;
- (ii) products: innovation and technical development; preservation (or even enhancement) of our technological lead.

But it is not only a matter of action to be taken by each yard individually. Our industry - made up chiefly of small and medium-sized firms - is faced with competitors (particularly in Asia) made up largely of highly diversified giant concerns or small or medium-sized ones operating through Trading Houses. In order to make it a fair fight individualism must be discarded in all fields where cooperation can help to improve the position of our shipyards.

In order to improve competitiveness and productivity the emphasis must be placed, both by the firms and their representative associations, on the need for more cooperation at national and Community level. Priority must be given to more energetic exploitation of the opportunities offered by the common market, with particular regard to quicker qualitative adjustment to demand and to the development of relations with Community shipowners.

The benefits of improved cooperation and better use of the Community dimension in terms of costs must be sought for as regards training, innovation, sales, financing and purchasing of components. In particular:

(a) Specialization and division of labour, which offer possibilities not yet sufficiently explored for improving the shipyard performance, can nowadays be achieved only on a group basis because of the size of firms in the Community industry.

(b) Research and Development should be undertaken for major projects on a joint basis. However, the industry's low workload tends to limit the resources available to individual yards. As a first step, more coordination of R&D programmes between the industry and the authorities and joint thinking to

to identify new fields will avoid duplication and yield economies of scale thus releasing new funds to boost R&D.

(c) More standardization is also essential for reducing production costs. Bought-out items are so important in shipbuilding that standardization of both components and manufacturing processes in the yards is needed. It is a key factor in ship design and production cost optimization and will enable the Community industry to tender for group orders which the Community (and other) shipowners currently place with Asian yards which produce a better response to this type of enquiry. If it is to produce the desired results, standardization must be conducted by the industry itself, using systematic procedures, because the ways used hitherto are too slow - even inflexible.

(d) Closer cooperation with Community shipowners is essential to enable the yards to offer products and services which meet these shipowners' needs more closely; it would also create the right conditions for carrying out standardization schemes.

Since action for recovery would be impossible without a minimum level of workload, the authorities must strive to create a climate conducive to improving the workload situation. The need for this is all the greater because most actions described require investment, which means that funds must be available and that while they are lacking there must be support for investment.

### 3. Restoration of normal competitive conditions

In this context, the Commission is willing to approve national investments aids, to enable the yards to become competitive and capable of operating later without aid. This implies that the Commission cannot consider direct production aids to be a solution for the sector's problems. It will continue, therefore, to insist that they be abolished as soon as possible.



By way of a follow-up to the resolutions of the Council (1978) and Parliament (February 1983) on the crisis in the shipbuilding industry the Commission will also continue - with the cooperation of interested parties - with endeavours to devise and introduce a Community maritime policy which combines the needs of commerce, shipping, shipbuilding and marine engineering.

Where under the aforementioned circumstances capacity utilization may be dependent on direct aids, measures to stimulate demand for the products of Community yards must for preference be envisaged. They will not promote the building of tonnage in excess of requirements, but in as far as they can assure a real Community preference they can open up the market at Community level. Thus the competitiveness of the shipyards will be enhanced and shipyards and shipowners encouraged to close ranks.

It is indeed fundamental for the sector that normal competitive conditions between Community yards be restored. Aids must be phased out and at the same time the normal working of the market be restored so that selling prices reflect production costs, in order to encourage the industry to speed up either improvements in their competitiveness or decisions to move into other lines of business.

In view of the world-wide context in which the Community industry has to operate, however, particularly the scarcity of orders and the growing over-capacity, it is clear that a Community policy for shipbuilding cannot leave external factors out of account, for these may hamper, or even partly nullify, structural adjustment. The situation is worsened by the fact that our competitors in some cases expand capacity, even with aids, although the shipbuilding industry in non-European countries already enjoys comparative advantages. It may, therefore, still be necessary to accept that compensations are given in order to enable our yards to align on world market conditions if our non-European partners for their part do not take the requisite measures of rationalization.

SHIPBUILDING COUNTRY BY COUNTRY  
Trends and restructuring 1975-81

1. Belgium (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	7 467	6 400	6 293	6 523	5 498
Output	170,0	165,2	124,8	129,6	95,4
Order intake	62,0	59,4	270,0	53,8	81,4

The bulk of the shipbuilding industry consisted of only two yards, building medium-sized to large ships. After one of them became insolvent in 1981, the Belgian Government provided large sums of money for ships under construction to be completed; it is envisaged that these two yards will later be merged into one big one, with major total capacity reductions, though only if demand should justify that the resulting enlarged yard be kept.

Small ships, barges and fishing boats are built by a number of small yards which often do repairs as well.

In recent years Belgian-flag shipping companies have been given large sums in aid for ship construction.

2. Denmark (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	16 630	12 000	9 900	11 400	11 350
Output	510,0	362,5	351,4	382,4	343,6
Order intake	236,0	263,8	391,0	284,6	296,4

Danish shipyards mostly belong to the country's shipowners and have been restructured without state aid. The trend since the start of the crisis has been towards concentration on more sophisticated ships and greater diversification of production.

The government has supported restructuring with public-sector orders and special credit terms for Danish shipowners.

3. France (Output and order intake in '000 cgrt)

End of :	1975	1978	1979	1980	1981
Workforce	32 500	25 300	23 000	22 200	22 200
Output	740.0	430.6	492.0	267.8	443.1
Order intake	183.0	214.1	487.3	556.4	332.9

Restructuring has entailed the closure of a number of small yards and concentration on high-technology ships by the large yards.

After the first (pre-1977) phase of restructuring five yards remained which were capable of building large and medium-sized ships. The government's policy has recently resulted in their merger into two separate groups, with a big State holding in one of them.

There is a multiannual aid programme designed to support the development of the industry.

4. Greece (Output and order intake in '000 cgrt)

End of :	1975	1978	1979	1980	1981
Workforce	2 316	.	.	.	3 393
Output	.	.	.	.	5.0
Order intake	.	.	.	.	4.5

Most Greek yards build only handy-sized ships; they also do repairs.

There is no specific restructuring plan and the government does not provide aids for shipbuilding.

5. Ireland (Output and order intake in '000 cgrt)

End of :	1975	1978	1979	1980	1981
Workforce	869	840	750	750	762
Output	20.0	5.0	18.9	3.0	17.0
Order intake	.	3.0	15.0	1.3	18.2

The only firm building medium-sized ships has been in trouble ever since the shipbuilding crisis began. Restructuring, with the aim of diversifying a minimum production capacity, has been supported by the government with a small number of ad hoc measures.

6. Italy (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	25 000	20 000	19 000	18 000	17 000
Output	480.0	305.2	248.6	345.5	359.1
Order intake	608.0	330.0	156.6	231.2	144.7

The Italian Parliament did not approve a restructuring plan put forward in 1978, so that the industry - mostly State-owned - went through a long, agonizing period during which some yards were closed and some turned over to other lines of work, chiefly warships and oil- and gas-rigs. A new plan has now been adopted by Parliament but not yet approved by the Commission, which has reservations about certain forms of aid being provided concurrently and about the extension of aids to ship repair.

7. Netherlands (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	22 662	17 540	14 540	13 100	13 100
Output	760.0	513.9	505.1	249.5	341.5
Order intake	190.0	376.5	240.2	373.3	365.2

Since the crisis began the Government has supported the restructuring of yards building large and very large ships. The industry has given up building very large ships and generous aids have been provided to facilitate the closure of the relevant capacity and enable the remaining production capacity to be redirected towards warships or sophisticated ships, and ship repair. Production aids have also been given, though the many small yards did not receive them and a number of these have also been closed.

8. Federal Republic of Germany (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	46 839	31 113	26 369	24 784	26 521
Output	1 400.0	1 029.0	660.7	596.2	870.1
Order intake	821.0	535.8	805.9	613.0	871.1

Restructuring of shipbuilding has been undertaken by the industry itself. Its chief forms have been a move into the building of high-technology ships and diversification. A number of small and medium-sized yards have had to close down, although in general yards have been able to survive relatively well. The large yards are often part of major industrial concerns; nevertheless they have been, and are, in severe financial straits, especially since the end of the short period during which the Government provided production aids.

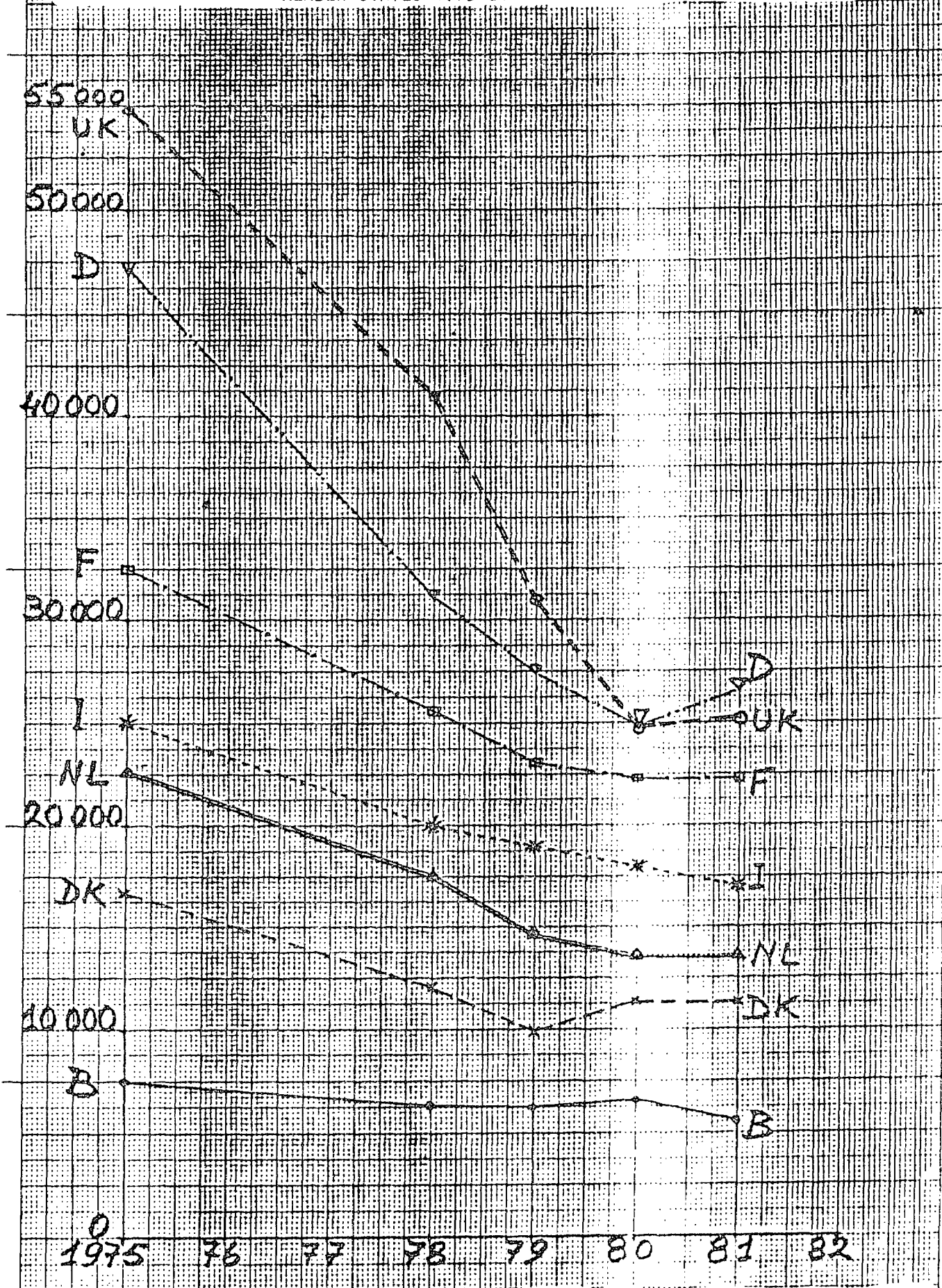
9. United Kingdom (Output and order intake in '000 cgrt)

End of:	1975	1978	1979	1980	1981
Workforce	54 550	41 050	31 200	24 800	25 345
Output	760.0	718.4	579.9	458.5	243.0
Order intake	127.0	230.2	188.9	350.2	410.8

Since most of the industry was nationalized in 1977 there has been a big reduction in British Shipbuilders' production capacity in terms of both manpower and of slipways and yards. But there is still a threat from the shortage of orders, resulting in inadequate productivity. The Government has therefore not yet been able to do away with the Intervention Fund which provides production aids.

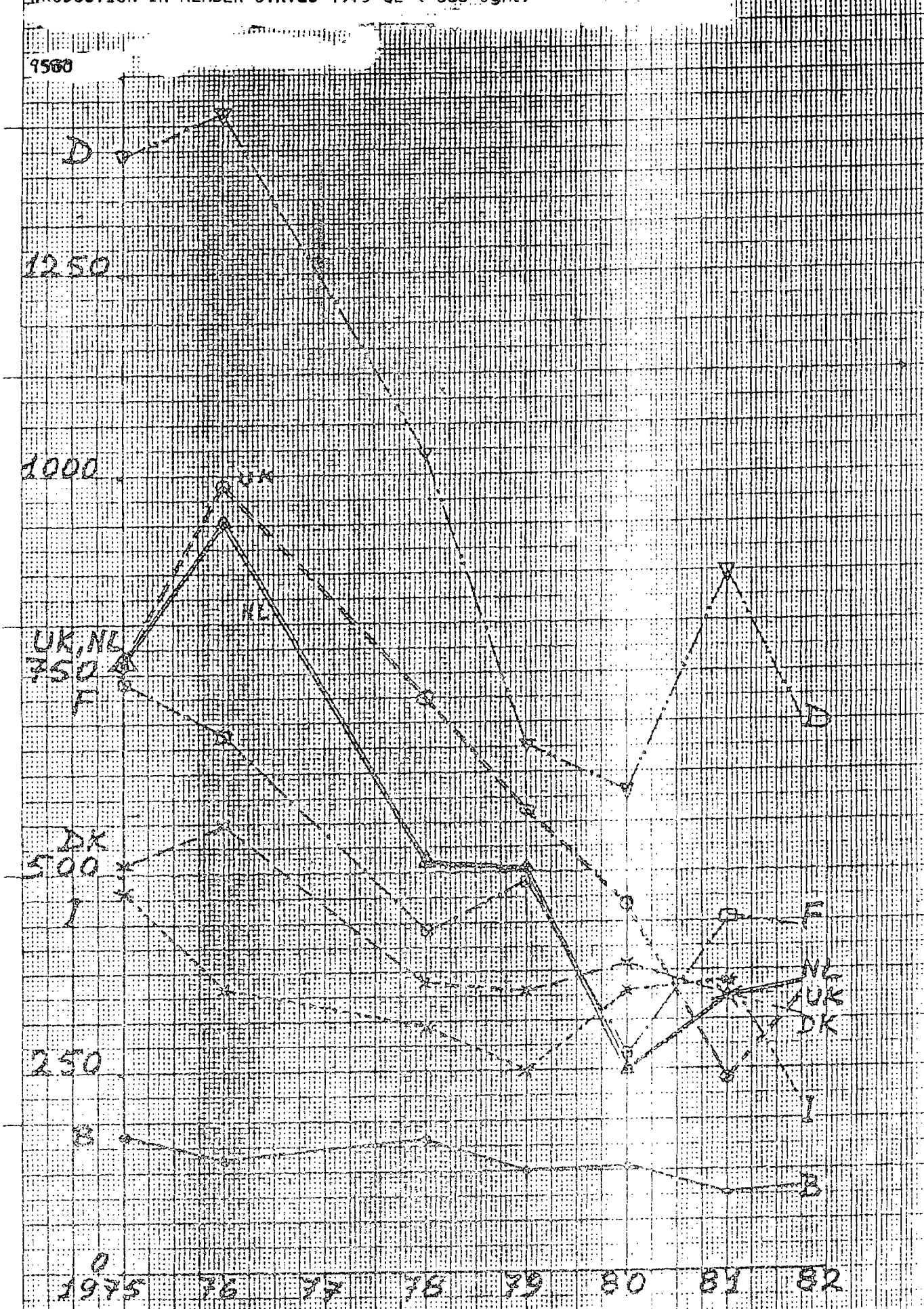
The Intervention Fund is also used to provide support for Harland and Wolff in Belfast, which is in an even worse plight, despite having been cut down to a fraction of its original size.

SHIPBUILDING WORKFORCE IN THE  
MEMBER STATES 1975-81



BASED ON DATA SUPPLIED BY MEMBER STATES

PRODUCTION IN MEMBER STATES 1975-82 ('000 cgrt)



SOURCE: LLOYD'S AND COMMISSION OF THE EC.