

21

European Communities

443.311 (CST 735)

EUROPEAN PARLIAMENT

Working Documents

1978 - 1979

3 July 1978

DOCUMENT 182/78

INTERIM REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the communication from the Commission of the European Communities to
the Council (Doc. 471/77) on the reorganization of the Community shipbuilding
industry

Rapporteur: Mr J. PRESCOTT

1.2.2

PE 53.555/fin.

By letter of 23 December 1977 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the communication from the Commission of the European Communities to the Council (Doc. COM(77)542 final) on the reorganization of the shipbuilding industry.

On 16 January 1978 the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs as the Committee responsible and to the Committee on Budgets, the Committee on Social Affairs, Employment and Education and the Committee on Regional Policy, Regional Planning and Transport for their opinions.

On 25 January 1978 the Committee on Economic and Monetary Affairs appointed Mr Prescott rapporteur.

It considered this proposal at its meetings of 19 April, 16 May and 19 June 1978.

At its meeting of 19 June 1978 the Committee decided that the report should be an interim report and adopted the motion for a resolution with 9 votes in favour, 1 vote against, and 4 abstentions.

Present: Mr Notenboom, vice-chairman and acting chairman; Mr Prescott, rapporteur¹, Mr Ansquer, Lord Ardwick, Mr Christensen, Mr Dankert, Mr de Keersmaeker, Mr Ellis, Mr Haase, Mr Lange, Mr Müller-Hermann, Mr Normanton, Mr Nyborg, Mr Ripamonti and Mr Starke.

The opinions of the Committee on Budgets, the Committee on Social Affairs, Employment and Education and the Committee on Regional Policy, Regional Planning and Transport are attached.

¹ Mr Prescott, the rapporteur, was present but had to leave before the end of the discussion and did not participate in the vote.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	10
INTRODUCTION	10
THE PRESENT CRISIS	10
THE OUTLOOK	11
World trade and the structure of fleets	14
REDUCTION OF CAPACITY	20
INCREASING DEMAND	24
SOCIAL FACTORS	25
REGIONAL FACTORS	26
BUDGETARY AND FINANCIAL CONSIDERATIONS	27
THE INTERDEPENDENT SECTORS	28
HOW CAN THE EEC INDUSTRY OBTAIN ORDERS?	29
Price	29
Suggestion for measures to bridge the price gap	29
Aid to build ships on a competitive basis	30
Social Costs	32
Subsidies	33
Efficiency	34
International agreements	34
Community preference	34
HOW MIGHT ORDERS BE DIVIDED WITHIN THE COMMUNITY?	36
THE SHIPBUILDING COMMITTEE	40
CONCLUSIONS	40
Opinion of the Committee on Budgets	41
Opinion of the Committee on Social Affairs, Employment and Education	73
Opinion of the Committee on Regional Policy, Regional Planning and Transport	88

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the communication from the Commission of the European Communities to the Council on the reorganization of the Community shipbuilding industry

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council¹,
 - having been consulted by the Council (Doc. 471/77),
 - aware of the seriousness of the situation in the Community shipbuilding industry,
 - having regard to the interim report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgets, the Committee on Social Affairs, Employment and Education and the Committee on Regional Policy, Regional Planning and Transport (Doc. 182/78),
1. Welcomes the fact that the Commission has produced proposals to begin to deal with the problems facing the Community's shipbuilding industry;
 2. Appreciates that the crisis in the Community shipbuilding industry is caused amongst other things by:
 - (a) the slump in world trade and the low Community and international economic growth;
 - (b) the considerable amount of surplus shipping;
 - (c) the abnormally low prices charged by the shipyards of certain countries;
 - (d) considerable growth in shipbuilding capacity to meet export production;
 - (e) the considerable state subsidies which have been given to the shipbuilding industry;

¹ OJ No. C 10, 12.1.1978, p. 5

3. Recognizes that adjustment to a reduced world demand will require international and Community agreements necessitating a uniform Community approach;
4. Feels nevertheless that the Commission's proposals for reorganization are as yet insufficiently detailed insofar as redundancies, capital requirements and assessments of reduction in capacity are concerned;
5. Stresses moreover that the figure of 2.4m cgrt taken by the Commission as the likely level of tonnage to be built in Community shipyards in 1980 should not be considered a target figure for the following reasons:
 - (a) it is out of date, being based on an hypothesis made in October 1976 regarding the volume of new orders which in the light of subsequent developments needs to be revised;
 - (b) it implies that world activity in 1980 will be split into three equal parts between Japan, the AWES countries (Western Europe) and the rest of the world, which would imply agreements both with Japan and with other countries to limit their production, agreements which, as the Commission admits, are unlikely to be reached;
 - (c) even were the figure to be roughly accurate, with the EEC countries maintaining their traditional share of Western European shipbuilding, it would be foolish to try to shape the Community shipbuilding industry to a level of demand which is certain to increase during the 1980s.
6. Suggests that the Commission should study and promote the adoption both inside the Community and at international level of measures which could increase world demand both for new ships and for modifications to existing ships such as scrap and build policies, better means of avoiding maritime pollution, and higher safety standards;
7. Realizes that EEC shipyards must be reorganized with inevitably some reduction in capacity, this being necessary in view of the need to increase efficiency and specialization, to take into account public orders, and to match the lower amount of world orders they are likely to obtain;

8. Points out that such a reduction cannot take the form of an across the board cutback for all yards, there being a certain size and mix of production necessary for optimum efficiency, and regrets the lack of any analysis in the Commission's document which could indicate a more efficient way of achieving this aim; suggests that the Commission should also take into account here, apart from regional and social factors, recent production trends in the different Member States as well as the division between production for the home market and production for export;
9. Considers that price can only continue to fulfil its function of regulating the market if
 - (a) a worldwide balance is also sought between supply and demand,
 - (b) Community producers can compete from the outset on more or less even terms with third-country producers,
 - (c) the aids required to this end are harmonized within the Community.
10. Welcomes the fact that the Commission in its communication devotes a comparatively large amount of attention to the social aspects and, not least, the employment aspects of the industry's problems;
11. Regrets, however, that the Commission's only response to the major challenge which the disastrous effects on employment represent is to put forward general proposals for the retraining and redeployment of workers;
12. Considers that much better statistical data will be needed than those provided by the Commission in order to ascertain the age distribution and qualifications of those affected, with a view to determining realistically the possibilities for the early retirement of workers or their retraining;
13. Believes, also, that in order to assess the practical possibilities for effective action, statistical data must be collected on the consequences of the proposed reorganization for subcontractors supplying the shipbuilding industry and on the chances of creating new jobs within the ship repair industry;
14. Proposes that consideration should be given to the possibility of concluding readaptation agreements for workers in the shipbuilding industry, by analogy with the provisions of the ECSC Treaty. This would make possible, inter alia:

- the payment of tideover allowances so that unemployed workers could retain their full pay while waiting for a new job;
 - the payment of allowances to compensate workers for loss of wages, to cover removal expenses, training and retraining costs and to facilitate early retirement;
15. Regrets that the Commission has made no reference to national redundancy schemes in the shipbuilding sector, which will affect the relevance and the cost of the Commission proposals;
 16. Cannot make any meaningful assessment of the financial consequences of the proposals as only the most general information has been provided; regrets that the Commission has not provided even a tentative breakdown between capital and current expenditure or between the Community budget, national budgets and private investment;
 17. Believes that any Community support in this sector should not lead to a reduction in finance available for other sectors within the existing funds, such as the European Regional and Social Funds;
 18. Regards it as essential that the Regional Fund allocations and in particular the proposed "hors-quota" section of the Fund take fully into account the developments in the shipbuilding industry;
 19. Believes that the Commission should submit new proposals accompanied by realistic financial estimates, taking full account of the regional and social factors involved;
 20. Draws attention to the serious impact there would be on particular regions of the Community, often already economically depressed, a fact which the Commission communication does not analyse, and which makes its proposals for alternative employment seem rather unrealistic;
 21. Stresses yet again the need for a maritime policy to embrace the inter-dependent sectors of shipping, shipbuilding and repairing and trade policy, a need not met by the Commission proposals;
 22. Points out that the Community is taking action in these other sectors by negotiating trade agreements and, as far as shipping is concerned, envisaging action to protect Community fleets from undercutting by the expanding fleets of the Comecon countries and, it is to be hoped, action to deal with the growing menace of flags of convenience;

23. Considers that if no international agreement on shipbuilding orders is reached, the Community will have to review its whole shipbuilding policy;
24. Expresses serious doubts about limiting the membership of the proposed Shipbuilding Committee to civil servants, considering that representatives of the unions and management involved should also take part;
25. Instructs its President to forward this resolution to the Council and Commission and the governments and Parliaments of the Member States.

EXPLANATORY STATEMENTINTRODUCTION

In view of the calls they have made in the past for a structural policy for the shipbuilding industry¹, the Committee on Economic and Monetary Affairs welcome the fact that the Commission has produced proposals as a first step towards reorganisation of this sector. The rapporteur, in the course of preparing this report, has had discussions with the Association of West European Shipbuilders², the EEC Shipbuilders' Linking Committee³, certain national shipbuilding organisations, representatives of the unions concerned, and representatives of the Japanese industry. The organisations within the EEC also welcomed the fact that the Commission was preparing a Community policy for this sector, though they expressed considerable reservations about certain parts of the Commission document which are mentioned below.

The rapporteur prepared a working document in March, which was discussed by the Committee, in which he put various questions to the Commission on subjects where he felt the communication was insufficiently detailed; such answers as have been received from the Commission are incorporated in the analysis below.

THE PRESENT CRISIS

The Commission communication begins with an analysis of the present crisis in the shipbuilding industry which, it says, results from a worldwide structural imbalance between production capacity and demand. It would serve no purpose to repeat the details of the analysis given by the Commission, concerning the fall in the EEC share of world shipbuilding, the pattern of world demand up to the present, fleet sizes, etc., with which the Committee would have no argument, having, indeed, already reported on the critical situation a year ago in their report on the Community shipping industry⁴. It should be noted that many of the problems facing the shipping

¹ Most recently in their report on the proposal for a fourth directive on aid to shipbuilding (Doc. 465/77), rapporteur John Prescott

² Made up of national shipbuilding organisations from Germany, France, UK, Italy, Denmark, the Netherlands, Belgium, Ireland, Norway, Sweden, Finland, Spain and Portugal

³ The Community members of the Association of West European Shipbuilders

⁴ Doc. 479/76, rapporteur John Prescott

and shipbuilding sectors are treated in depth in this report and such analysis therefore is not repeated in the present document.

The Commission statement that "although production facilities in some Member States have been modernised, Community shipbuilding is handicapped by unsuitable structures and by uncompetitive operating costs"¹ is important not just for the attention it draws to the need to modernise the Community industry, but in that it indicates that the shipyards in some Member States will need less modernisation than those in others.

The Commission considers that overcapacity would probably have occurred even without the oil and economic crises. New shipbuilding industries have grown up in several countries, notably South Korea, Taiwan and Brazil (the Japanese industry has expanded greatly), and their undercutting on price and the growth in shipbuilding capacity producing for export, in these and other countries, has caused the crisis in the Community shipbuilding industry.

THE OUTLOOK

It is when the Commission passes from analysing past trends to forecasting future ones that it is, inevitably, on shaky ground. The different variables, world trade, inflation, and growth are increasingly unpredictable. For example, the projection of the figure of 2.4 million cgrt referred to in the Commission communication as the estimated EEC market share of world shipbuilding in 1980 was widely criticised by the industry's representatives. The importance which should be attached to this figure is not made clear in the Commission document which says that if the rest of the world's production remains constant, and Japanese and the AWES countries divide equally the remaining production, while the Community retains its share of 60% of AWES production, on the basis of production forecasts made by AWES experts, Community yards could be delivering by 1980 2.4 million cgrt compared with 4.4 million cgrt in 1975. Community production would therefore have fallen by 46%, while total world production fell only 40%.²

These AWES "production forecasts", however, must be treated with circumspection. In an AWES assessment of the world shipbuilding situation in the late '70s and early '80s which was made in October 1976, a forecast activity curve was indeed given with a "floor" level in 1979/80 of

¹ Doc. 471/77, page 2

² Doc. 471/77, page 5

12 million cgrt. However, this world figure was based on two hypotheses made by the AWES regarding the volume of possible additional cancellations of tankers in view of the high level of orders on the books and regarding the volume of new orders which would be placed between 1.1.76 and mid-1979 for delivery before 31.12.80. Not only is this forecast in need of some revision (for example, the real volume of cgrt orders booked between the beginning of 1976¹ and 1.10.77 was, on a yearly average, about double the theoretical needs¹) - it now seems that the "trough" will come in 1981/82 rather than in 1979/80 - but to pass from the global figure of 12 million cgrt to a Community one of 2.4 million cgrt requires further hypotheses which are, on the face of it, by no means realistic.

It requires that world activity in 1980 should be split into three roughly equal parts between the AWES countries, Japan, and the rest of the world, and that, further, the Community should maintain its average share of the AWES part of 4 million cgrt, to wit 2.4 million cgrt. Now the former of these hypotheses is exceedingly unlikely to be fulfilled - for two reasons: new shipbuilding countries are continuing to expand their capacity and output, and are certain to try (and probably succeed) to expand their present share of world output; and Japan does not seem to be about to reach any agreement (and an agreement would be necessary) to limit its share of the remaining available orders. Evidence of limits imposed by Japan in other areas of production does not lead one to believe that they would be able in any case to fully implement such an agreement.

It seems that the Commission intends merely to indicate what level of production Community shipyards might hope to achieve at this low point in world demand and has found it necessary to base their forecast upon certain concrete premises, however unrealistic. It may first of all be reproached, therefore, for not making its premises clear, and secondly for over-emphasising the importance of this figure. Its importance is over-emphasised in that the Commission is basically saying that the capacity of Community shipyards must be cut back, and the only figure one can find in the document which might be the figure they were to be cut back to is this figure of 2.4 million cgrt.

This said, it must be admitted that most outside sources agree that the figure of 12 million cgrt for world demand is fairly realistic; at the low point, whether it come in 1980 or 1982, world demand is unlikely to be higher than this and may well be somewhat lower. 2.4 million cgrt for the

¹ Source: EEC Shipbuilders' Linking Committee

Community therefore is an optimistic assessment and in a sense is the maximum it could hope to achieve (the question of how it might be achieved is considered below). However, one should not jump from this figure as a forecast to this figure as a target and conclude that shipbuilding capacity in the EEC should be cut back to a level where this could be produced with a minimal underutilisation of resources.

It may be useful to indicate here the significance of the concept of compensated gross registered tons. This measure takes account of the amount of shipyard work required to produce each gross registered ton, and is based on the building of a general cargo ship. That is to say that if a country produced only general cargo ships, its tonnage produced measured in cgrt would be the same as measured in grt. If it produced only tankers and bulk carriers, where the amount of work per gross registered ton is lower than for general cargo ships, its tonnage produced measured in cgrt would be lower than measured in grt. The converse would be the case if it produced mainly very sophisticated vessels.

The Commission communication includes (on page 5) a table, reproduced below giving forecasts for production in 1978. It can be seen from comparing the cgrt figures with the grt ones that Japan and to a lesser extent the EEC devoted a higher proportion of their production to simpler ships (especially tankers) than the 'Rest of the World' (which includes the United States and the Comecon countries, as well as South Korea, Taiwan, Brazil, etc.).

1975 PRODUCTION AND 1980 PRODUCTION FORECAST
(BASED ON FORESEEABLE DEMAND)

	1975		1980	
	grt	cgrt	grt	cgrt
EEC	7.8	4.4		2.4
Rest of AWES	<u>5.3</u>	<u>3.2</u>		<u>1.5</u>
AWES	13.1	7.6		3.9
Japan	17.0	7.7		3.9
Rest of the World	<u>4.2</u>	<u>4.2</u>	—	<u>4.0</u>
Total, World	34.3	19.5	10.4	11.8

The blank third column would seem to indicate that it is uncertain what ~~type~~ type of ships will be produced in which area, but it is clear from comparing the total world figures for 1980 that the main fall in demand will be for the simpler ships. It is quite likely that given this trend, the tonnage which might be built in EEC yards would be around or below 2.4 million grt. As compared with the 1975 grt figure of 7.8 million grt, this would be a reduction of about 70%, it is not realistic to assume that, politically, such a policy could be implemented. Some cutback must take place, however, so it would be a tragic mistake to allow the whole argument to hang on this figure.

World trade and the structure of fleets

Future demand for shipbuilding work clearly depends on the demand for shipping services, which in turn depends on world trade patterns. The rapporteur felt that insufficient detail on this was given in the Commission communication and the Commission has provided further information at his request. The table opposite illustrates the present pattern of world trade, showing what is carried by sea, and by whom. The volume of dry cargoes is increasing and it seems as though it will soon outstrip that of petroleum products.

As regards EEC shipping, a breakdown of tonnages by flags is given in the three tables overleaf (pages 16/18). It should be noted that these tables exclude the cargoes of shipping using flags of convenience, as no reliable information on these cargoes is available. While this is virtually insignificant as far as bulk and general cargo tonnages are concerned, the tanker tonnage figures must be regarded as somewhat inaccurate.

III/C/2
25.4.1978

INTERNATIONAL MARITIME TRANSPORT 1975-1976

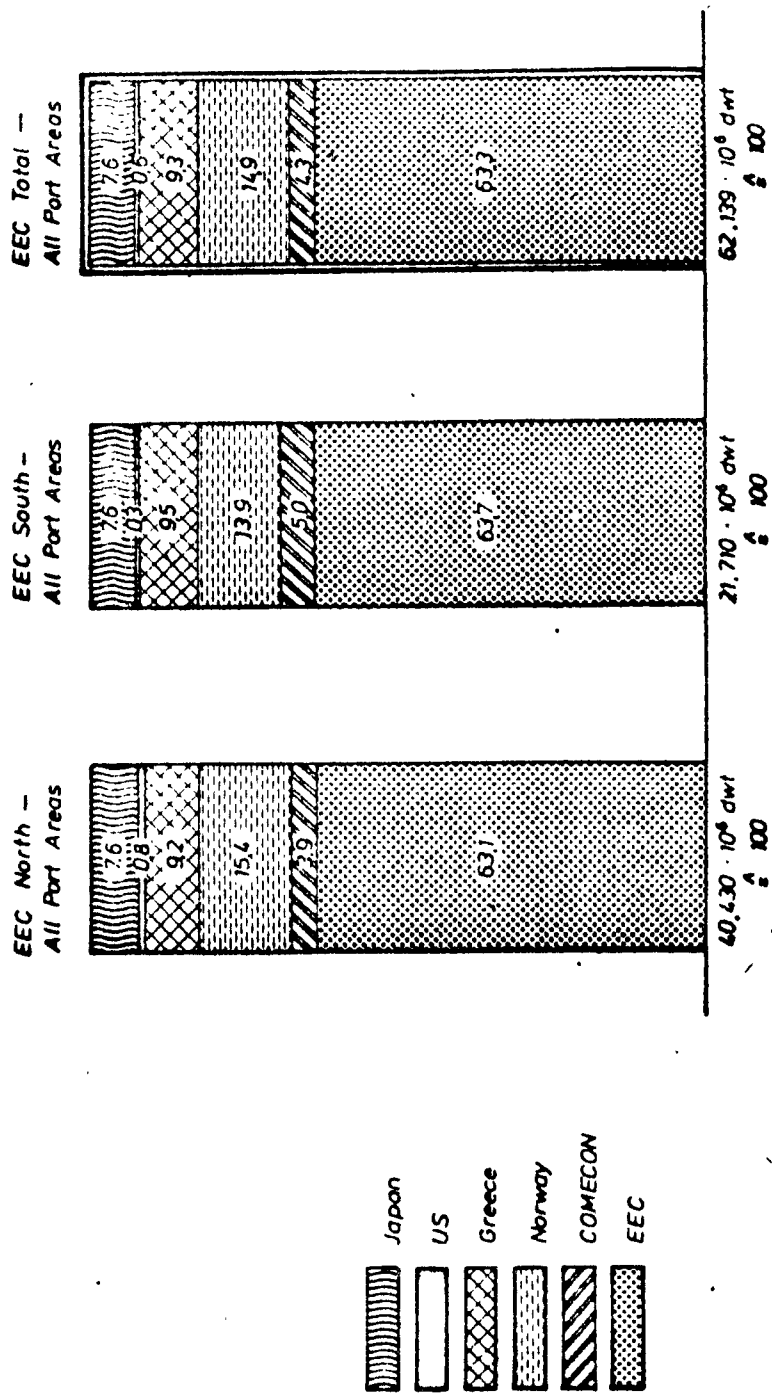
Foreign trade in goods - cargoes loaded and unloaded according to type

Millions of tons

(Source: UN Monthly Bulletin of Statistics - January 1978)

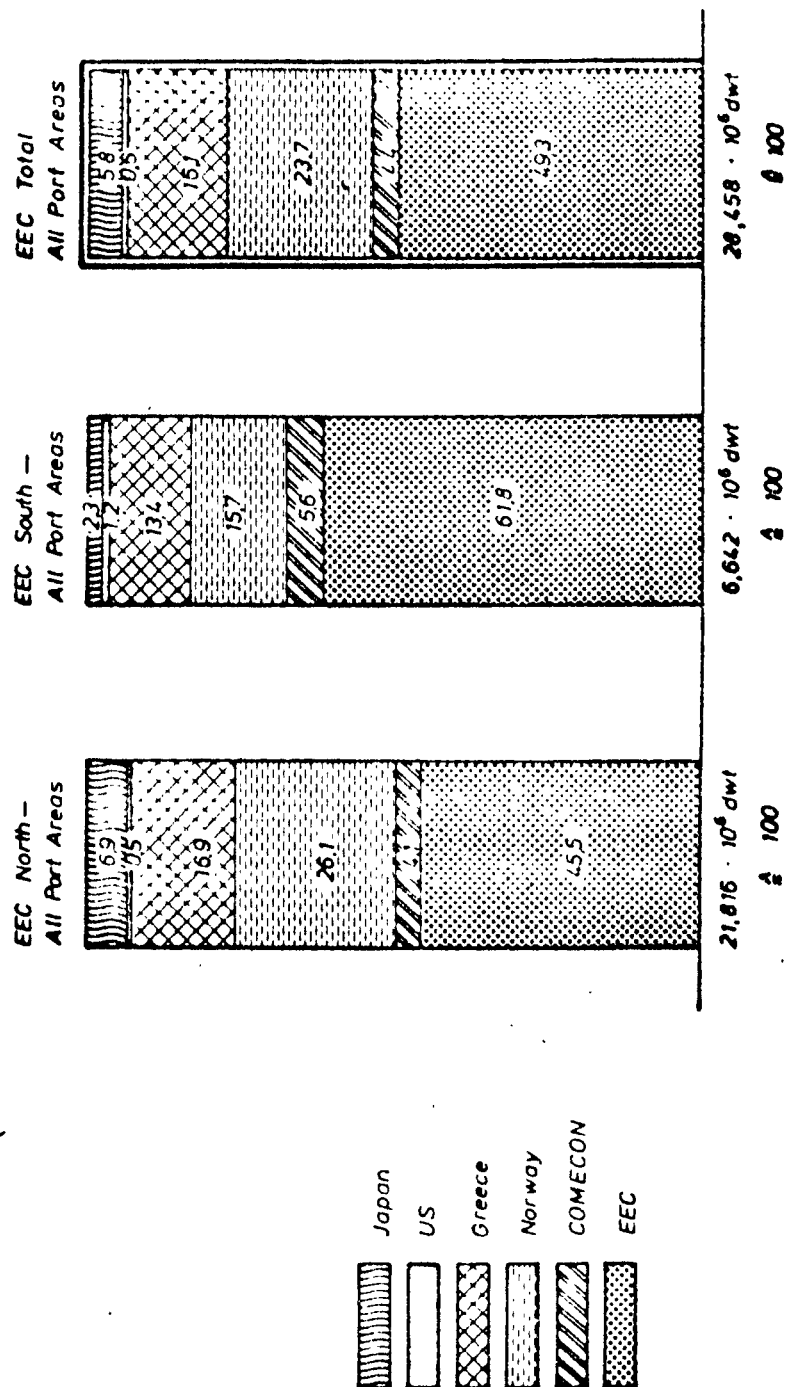
	1975						1976					
	LOADED			UNLOADED			LOADED			UNLOADED		
	Petro- leum	Dry cargoes	TOTAL	Petro- leum	Dry cargoes	TOTAL	Petro- leum	Dry cargoes	TOTAL	Petro- leum	Dry cargoes	TOTAL
Market economy developed countries	143	891	1,034	1,333	1,025	2,358	143	935	1,078	1,272	1,220	2,492
EUROPE	105	288	393	727	505	1,232	106	303	409	636	640	1,276
Market economy developing countries	1,416	434	1,850	296	280	576	1,564	502	2,066	307	298	605
Planned economy countries	85	103	188	31	91	122	90	118	208	35	101	136
WORLD TOTAL	1,644	1,428	3,072	1,660	1,396	3,056	1,797	1,555	3,352	1,614	1,619	3,233

EMPLOYMENT OF TANKER TONNAGE IN TRADES from/to EEC ON 1-1-77 BY FLAGS [%]
 (all inter/intra area employments)



EMPLOYMENT OF BULK TONNAGE IN TRADES from /to EEC ON 1-1-77 BY FLAGS 1%

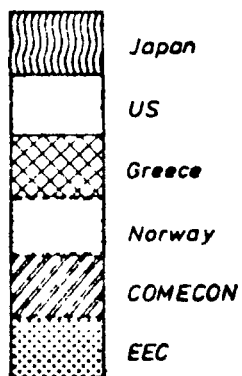
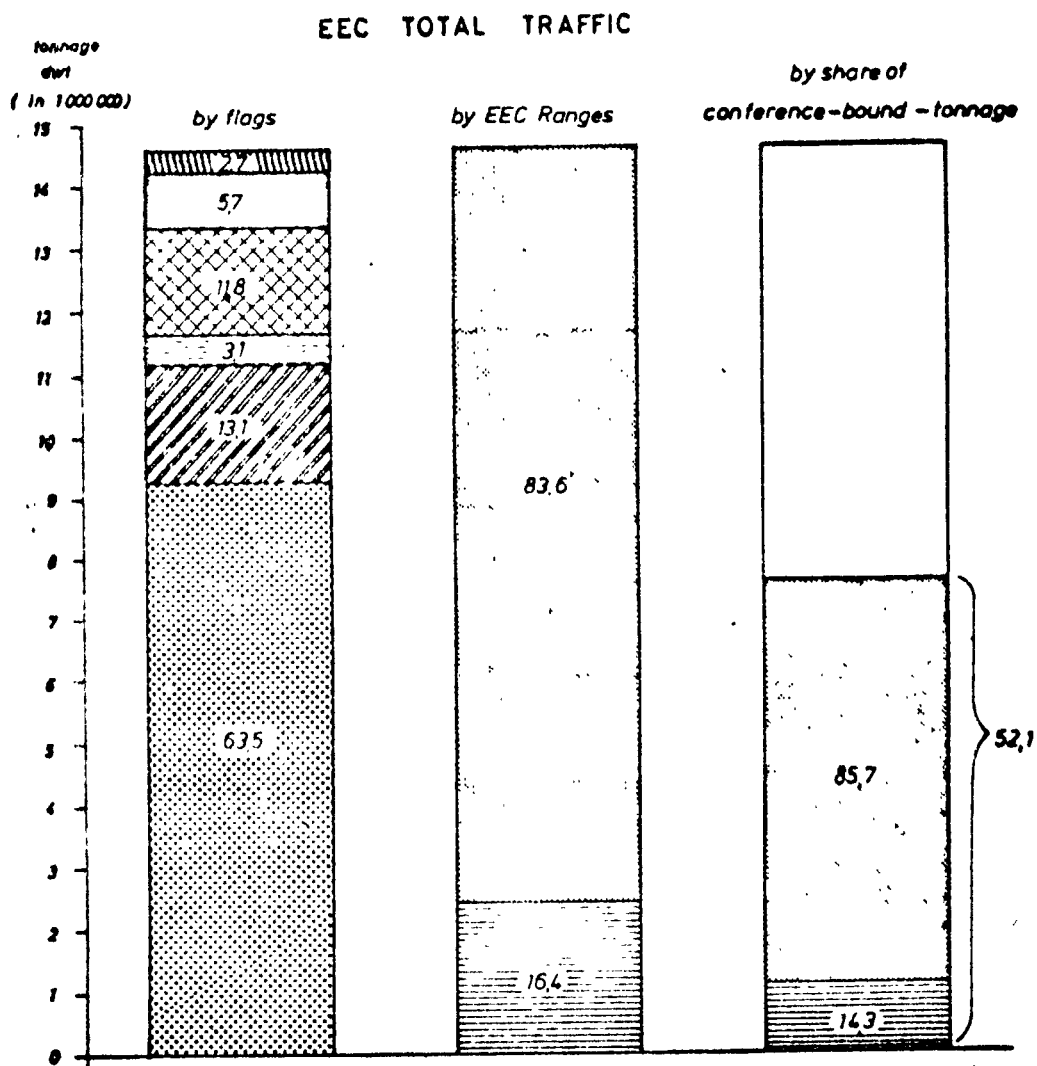
(all inter / intra area employments)



EMPLOYMENT OF GENERAL CARGO TONNAGE IN TRADES from/to THE

EEC RANGE AS MID OF 1976

(all inter/intra area movements)



The only forecasts which the Commission has made for overall world trade extend to 1985 and are based on GNP growth estimates. Taking estimates of the annual average growth rate of GNP as a basis, the figures arrived at for the annual average growth of trade are as follows:

	<u>Estimate</u>	
	<u>Low</u>	<u>High</u>
GNP annual average growth rate 1977-1985	4%	5.5%
- World	4%	5.5%
- Community	3.5%	5%
Annual average growth of trade		
- World	5.5%	8%
- Outside the Community	6%	9.5%

The latest OECD forecasts for economic growth and growth in trade suggest that even the low estimates in the above table may be too optimistic.

The trend is for the primary industries, which are the main users of transport capacity (iron and steel, oil refineries, non-ferrous metals, etc.), to be re-located closer to their sources of raw materials. An increasing proportion of these raw materials will be processed in their country of origin, avoiding shipment elsewhere. On the other hand, the volume of shipments of manufactured goods, i.e. semi-finished or finished products, will increase. It is therefore likely that in the long term general cargo tonnages will remain unchanged, while liquid or dry bulk cargoes will diminish.

If the trend towards protection is maintained, there will clearly be an effect on trade, particularly in manufactured goods, and therefore an adverse effect on any growth in demand for sea transport.

As far as the Community's fleets are concerned, it is clear from the foregoing that it will be necessary to adapt to more specialised cargo vessels, e.g. to container ships and lighters, carriers of refined products, methane carriers, etc., and to reduce the number of bulk cargo vessels.

Some adaptation of the structure of the Community's fleet is inevitable in view of the anticipated changes in the pattern of world maritime trade and the fact that new countries are engaging in maritime shipping. The tendency in the Community will therefore be to build expensive and technologically advanced ships which are capable of meeting the specialised shipping needs of the industrialised countries.

The Community's shipbuilding industry generally seems well equipped to adapt production to demand, for it not only has sufficient production flexibility but also the capacity to adapt to change. This adaptability is primarily due to the expertise of the industry's technical and general personnel, which is widely regarded as being of a high standard. Technical considerations such as the size of stocks, etc., are of secondary importance in this regard.

REDUCTION OF CAPACITY

World demand will certainly be at a higher level than 12 million cgrt by, say, 1985 and the Community industry must be in a position to take advantage of this. As one shipbuilding representative put it, it would be idiocy to gear the Community industry to the lowest level of demand for a hundred years. Nevertheless, it is undeniable that the industry will have to be reorganised and that this will involve some reduction in capacity.

The term 'capacity' is rather vague, but 'reduction of capacity' certainly implies devoting few economic resources (land, labour and capital) to the shipbuilding sector. Two questions must therefore be answered: how much to cut back, and how and where to cut back.

The Commission does not answer the latter question at all, and answers the former by reference to the figure of 2.4 million cgrt and the number of redundancies restructuring to this level would involve. (This question is further considered below under the heading 'Social Factors').

Two points should be borne in mind in this connection. First, the EEC needs to maintain its own shipbuilding capacity for strategic reasons, not just military, but stemming from its dependence upon international trade. Second, a cutback cannot be 'across the board', where every single shipyard reduced its capacity by, say, 50%. There is a certain minimum efficient size for a shipyard, below which it is not economically viable. Reorganisation could therefore involve the complete closure of certain shipyards. The Commission communication gives no attention to this problem and the rapporteur asked, therefore, for details of shipyards and ships where, according to the Commission, the Community industry had a high degree of competitiveness.

The Commission provided the following table which gives an indication of the types of vessels for which Community shipyards are particularly well placed, having regard both to the end-1977 order book and to the new orders placed in 1977, although it says the figures for new orders may not be entirely representative in view of the depressed state of the market in 1977 .

	<u>NEW ORDERS IN 1977</u>			<u>ORDER BOOK IN 1977</u>		
	<u>Community share of world market</u>	<u>Tonnage order in Community</u>	<u>World total tonnage</u>	<u>Community share of world market</u>	<u>Tonnage order in Community</u>	<u>World total tonnage</u>
	%	cgrt	cgrt	%	cgrt	cgrt
LPG carriers	60	164,300	275,400	53	652,500	1,233,700
High-speed cargo liners	33	148,300	446,800	39	518,000	1,338,900
Ferries and passenger ships	31	90,100	289,200	50	461,400	914,100
Container ships and lighters	10	80,700	849,900	42	741,300	1,778,300
LNG carriers	-	-	75,000	30	357,700	1,183,700
Dredgers	24	65,800	280,300	28	95,100	337,800
Tugs	26	93,600	361,700	16	121,000	775,800
All Ships		2,540,900	14,040,700		7,226,300	31,199,300

While the Community industry could certainly not maintain itself by building only such ships, the total orders for these are by no means insignificant. They represent some 25 per cent of all orders received by the Community in 1977 (new orders throughout the world for them represent 18 per cent of total world orders), and 41 per cent of Community order books (compared with 24 per cent of world order books).

The pressures of a buyers' market are such that profitable orders have become very rare in both Europe and Japan, even for the most competitive shipyards. However, losses on orders for the types of vessels mentioned above are generally smaller than on other types.

Construction of the sophisticated types of vessels in question is undertaken by many shipyards, either on a regular or an occasional basis, and involves the participation of a variety of ancillary industries.

It was however not possible at the present stage of the Commission's sectoral survey to identify the construction of a particular type of vessel with a given region, except in the case of dredgers, a high proportion of which are built in the yards located along the main waterways in the Netherlands. The question of the lack of regional information is dealt with below.

The types of ship which the Community produces best gives some indication no doubt of which shipyards should be preserved and which closed. It is important to remember, however, that the EEC's competitors, particularly Japan, are or will be shifting increasingly towards the more sophisticated types of ship where the Community presently enjoys an advantage. In response to a request from the rapporteur, the Commission provided the following details:

Share of world market of main competitors of Community shipyards

		Base: New Orders in 1977	Base: End-1977 order book
LPG carriers	other European countries	9%	26%
	Eastern countries	-	12%
	Japan	29%	9%
Ferries and passenger ships	other European countries	42%	14%
	Japan	14%	14%
	Eastern countries	-	22%
High-speed cargo liners	Japan	41%	29%
	Eastern countries	11%	17%
Container ships and lighters	Japan	49%	27%
	USA	7%	10%
LNG carriers	USA	-	56%
	Japan	-	8%
Dredgers	other European countries	44%	37%
	Japan	27%	16%
Tugs	USA	19%	17%
	other European countries	7%	16%

Furthermore, some of the emergent industrialised countries have established or are already developing their own shipbuilding industry, with the help of capital from outside attracted by subsidies and lower wages. While at this early stage their vessels are relatively unsophisticated and are intended primarily for their own fleets, it is probable that they will eventually also produce for the world market and that they will then achieve higher technological standards. As an example, South Korea has taken advantage of certain favourable factors to establish itself rapidly as a key competitor on the market. As yet the impact of these developments on Community shipbuilding is difficult to evaluate.

INCREASING DEMAND

The Commission communication recognises that measures to stimulate demand for work from shipyards have a role to play, and it mentions in particular certain environmental protection measures 'could lead to a partial reduction of the excess capacity in tanker fleets and also appreciably stimulate the conversion of existing tankers' (page 12) and more stringent safety regulations. Much more examination of the possible ways of increasing demand is required.

As far as environmental measures are concerned, consideration should be given not only to modifying ships by requiring segregated ballast tanks, for example¹, but also to improving shore installations by, say, providing tank cleaning facilities in ports. If such facilities were to be built by shipyards, they could provide work for people who would otherwise be made redundant.

Measures to raise safety standards² and improve working conditions would have three advantages: the obvious social one; providing work for shipyards in modifying or building new ships; and helping to combat the ever-growing menace of flags of convenience.³ In addition, serious consideration should be given to expanding to Community level such schemes of 'scrap and build' already in operation in certain Member States. This could be particularly beneficial for the shipbuilding industry as by reducing the supply of shipping available at the same time as guaranteeing work to the shipyards it could increase shipping rates, upon which demand for new ships backed by the fleet owner's ability to pay largely depends.

At present, according to the AWES, the level of scrapping older ships is low: in the world fleet some 7.8 million grt was scrapped in 1976, about 2 per cent of world tonnage. They consider it desirable to accelerate scrapping in the next five years to about 4-5 per cent of total tonnage.

One important point is the extent to which banks and governments are involved in financing the shipping industry and particularly the tanker side of that industry. At a 'Seatrade' conference at the beginning of April it was said that of the total \$40,000 million loan commitments to the shipping industry, the banking system probably accounted for some 40 per cent or \$15,000 million. The stake of government finance in many tankers only a few years old suggests that government may have very strong views about how any scrap and build policies should be implemented.

¹ Unfortunately the Intergovernmental Marine Consultative Organisation (IMCO) has just rejected proposals to introduce these. Might the Community take unilateral action here?

² The Committee note the attention which the Commission are giving to such problems particularly from the environmental point of view in their communication to the Council on the marine pollution arising from the carriage of oil ("Amoco Cadiz") Doc. 121/78, upon which the Committee on

³ Regional Policy, Regional Planning and Transport have prepared a report Referred to in detail in the Committee's report on the Community shipping industry Doc. 479/76

Attention should be given to new areas of demand which the Community might hope to meet. The widespread introduction of a 200-mile exclusive economic zone has led certain countries to start expanding their fishing fleets, for example, and the exploitation of EEZs will clearly require the development and production of new types of vessel designed for seabed exploration and extraction of minerals, etc., just as the extraction of oil and gas from the sea has done during the last ten years. There will be a demand for vessels to provide back-up services, like safety and surveillance, for fishing, oil and gas extraction, and the coastguard. Help could be given to developing countries anxious to develop or expand port facilities.

Other examples of projects which could give extra work to shipyards could be investigated. The idea of building ship factories has been studied by shipyards in Northern Ireland in response to American interest, the mobility of the factory being the predominant advantage. Yards which can build ships might well also build houses, and certain yards have produced heavy earth-moving equipment, the production of which could be concentrated usefully in periods when work on ships was slack. Building thermal gas containers for refrigerating food products has been done by shipyards, they have been involved in engineering projects like the development of concrete pumps, and they could well be associated with the development of means to use energy from waves.

SOCIAL FACTORS

Such ideas may seem to come under the heading of diversification of activity rather than simply measures to stimulate demand, but they are particularly important in that the problem of unemployment is going to prove a major impediment to the Commission's plans for cutbacks. The Commission communication bluntly states the need for redundancies: 'As it is impossible to maintain the present level of employment of some 165,000 persons any action that does not take into account the social aspects of the exercise and seek to limit the effects on the labour force will be doomed to failure'. (page 11).

The Commission again operates on the assumption of demand in the early 1980s being 2.4 million cgrt, and says that in view of this expected level, 'the Commission estimates that an effective restructuring operation in this sector could affect approximately 75,000 jobs, 15,000 of which it is estimated will be vacated by natural wastage. If the operation is extended to directly related industries, these would be affected in the same proportion which would make approximately 30,000 persons redundant' (page 11).

This aspect of the proposal has been dealt with fully by the Committee on Social Affairs, so the Committee on Economic and Monetary Affairs will limit themselves to making three brief points. First, the Commission figures are contested by the EEC Shipbuilders' Linking Committee which states that the Commission's estimate for unavoidable redundancies in related industries should, taking into account the figure advanced for redundancies in the yards themselves, at least be doubled. Second, one should not forget what the figure of 15,000 jobs to be vacated by natural wastage or job-loss implies for the school-leavers in traditional shipbuilding areas who will not be able to find employment in the industry. Third, and most important, is the fact that Member States' governments will find it politically impossible to agree to any plan which involves such a high level of redundancies without there being a realistic possibility of the people involved finding employment elsewhere. The Commission mentions the need to retrain and redeploy workers within the yards and outside them, and stresses the need for the full weight of Community resources to be brought into play, but it seems to the rapporteur that the possibilities for re-employment of such a large number of people, many in areas where unemployment is much higher than average, are so limited as to be unable to provide sufficient guarantees for Member States to permit such a large cutback. Moreover, even "the full weight of Community resources" is so limited that it could not deal with the effects of a cutback of the size which the Commission communication seems to envisage.

REGIONAL FACTORS

The regional aspect of the question must be seen in connection with the social factors outlined above. Here again, in view of the opinion prepared by the Committee on Regional Policy, Regional Planning and Transport, the Committee on Economic and Monetary Affairs will be brief. One of the most striking facts about the Commission communication is the absence of any regional analysis whatsoever. The role to be played by the Regional Fund is referred to, but the communication gives no information as to the location of shipyards throughout the Community. In response to a written question from the rapporteur (No. 93/78), the Commission has furnished a table, reproduced opposite, giving a breakdown of orders and production by country but it admits that it does not at the moment have details of the distribution within each Member State which would enable a comparison between the different regions of the Community. In view of the fact that in several cases shipyards are concentrated in disadvantaged regions, it is

	'000 cgrt	
	<u>Orders</u>	<u>Production</u>
Federal Republic of Germany	707.7	1,364.6
Belgium	115.2	82.2
Denmark	281.0	496.0
France	61.6	609.6
Ireland	5.0	21.7
Italy	148.9	462.0
Netherlands	732.4	556.4
United Kingdom	<u>489.3</u>	<u>782.8</u>
	<u>2,540.9</u>	<u>4,375.2</u>

(Source: Lloyd's Shipping Register)

vital that information on this matter should be made available; only then could the feasibility and possible means of implementation of the Commission's proposals be accurately evaluated.

BUDGETARY AND FINANCIAL CONSIDERATIONS

Here again, the subject has been dealt with by another Committee, whose opinion is critical of the Commission's proposals. Certainly more details are required, and the Commission should have examined possible alternative schemes or hypotheses and costed them. It seems strange in the light of the Commission's statement that 'the financial contribution for which the shipbuilders are responsible cannot be significant in view of their liquidity position and their considerable burden in maintaining production facilities' (Annex II, page 4) to be informed by the Commission that the firms concerned will in fact have to raise 60% of the necessary funds for themselves. The Budgets Committee report nearly all of those who replied to their questionnaire believed that firms would find it impossible, in view of the very tight market situation, to undertake considerable outlays in new investment.

The Budgets Committee also stress the limited resources available from Community funds, given the Council's restrictive attitude to the Social and Regional Funds and the fact that Article 375 of the Community budget, designed to provide economic aid for individual conversions, has a total entry of only 17 m.u.a. The success of any policy, therefore, they say, would depend on the Community's ability to contribute to its financing through the capital market, both via the European Investment Bank and by recourse to Community borrowing. The Budgets Committee also make the point that the Commission makes no reference to national redundancy schemes in the shipbuilding sector, which have an important bearing on the whole matter.

Finally, they call for the Commission to resubmit proposals accompanied by realistic financial estimates, to re-examine all the policy options, and to present a range of options with the different financial estimates attached. The present report of the Committee on Economic and Monetary Affairs suggests policy options which could usefully be examined by the Commission.

THE INTERDEPENDENT SECTORS

As the Committee on Economic and Monetary Affairs has stressed in the past¹, shipbuilding should not be seen in isolation from shipping and trade policy. The Commission pays lip service to this in its communication, but as was already pointed out, no attention was given to trade patterns and forecasts and there is no mention of the importance of trading agreements.

Its consideration of the shipping industry is limited to remarks like the following: 'As the cost of transport is a very important factor in the Community's economy, the Commission does not consider that the interests of the shipping industry should in any way be subordinated to those of the shipbuilders' (page 10). Such a statement makes one wonder whether the Commission appreciates the strength of the link between shipping and shipbuilding. If, in ten years' time, there were no Community shipbuilding industry, it is likely that Community shipowners, to say nothing of Community citizens in general, would find their interests very much threatened.

An important thing to remember about Community shipowners is that all are in receipt of state aids and/or direct and indirect credits, and that nearly all are agreed in wanting Community help to combat the expansion of the fleets of state-trading countries.

The Commission has drafted a proposal 'for a Council decision concerning the activities of certain state-trading countries in cargo liner shipping' (Doc. 110/78) on which the European Parliament (though not the Committee on Economic and Monetary Affairs) was consulted. It is interesting to see that opposition to Community action here has come from certain shippers who consider they should have absolute freedom to ship their goods in whatever ships offer the cheapest rate. Naturally, Community shipowners make the point that such rates are 'artificially cheap' in that they do not reflect the true cost of providing the service, warning, moreover, that the disappearance or serious weakening of Community fleets would have grave

¹ Report on the Community shipping industry (Doc. 479/76) and on the Fourth Directive (Doc. 465/77)

consequences later on for the shippers who would then probably be forced to pay much higher rates by Comecon fleets. A parallel case can be seen in the relationship between Community shipyards and Community shipowners.

HOW CAN THE EEC INDUSTRY OBTAIN ORDERS?

Price

EEC shipyards very often cannot offer prices for ships which are lower than those quoted by their competitors in Japan, South Korea, Taiwan or Brazil. The present threat comes from Japan who, in spite of agreeing to raise her prices (by a small amount), may actually offer ships at lower prices than a year or two ago - in spite of the increased costs of the imported raw materials. According to representatives of the British shipbuilding industry, Japan is now invading the small ship market and quoting prices 35% below British break-even costs.

In 1976, when Japan undertook to raise its prices of self-propelled ships by 5% (this undertaking has not been fulfilled although there is some indication that prices for certain types of ships have stabilised), steel prices in Japan were some 20% lower than in the EEC, machinery and labour some 30% lower, according to the Commission. It should be remembered that in shipbuilding input from outside the yard accounts for about 60% of a ship's costs. Moreover, absenteeism in Japan is very low - probably under 7%, while in British yards it is 12% and reaches 16% in some parts of the Community. In countries like South Korea it is undoubtedly even lower than in Japan.

Japan still aims to obtain 50 % of available world orders, but her industry is finding even its prices being undercut by countries like South Korea, Taiwan and Brazil. Though these countries account for only a small percentage of world output at present, their capacities are increasing and their share of world orders, given the exceedingly low prices they quote, is virtually certain to increase.

Suggestion for measures to bridge the price gap

In December 1976 the Linking Committee put forward various ideas for autonomous measures to be taken if negotiations with Japan in the OECD did not lead to a satisfactory result. The Linking Committee did not necessarily advocate all of these, but thought the Commission might usefully examine them. They concerned directly or indirectly reducing the price difference with Japan, and included the following ideas:

Aid to build ships on a competitive basis

1. Competitive terms for financing ships built by EEC shipowners at EEC shipyards during building period and after delivery.

EEC to be considered as one home market in which ships built at EEC yards for EEC shipowners and sailing under EEC flags could be financed to a high percentage of the contract price to a low rate of interest and with repayment over a long period.

An EEC guarantee could induce commercial banks to take care of this home market credit scheme. This would at the same time discourage European shipowners to bring their ships under a flag of convenience.

2. For non-EEC shipowners, terms to be at the level of OECD understanding with special conditions to match offers from third countries.

Creation of a shipbuilding fund to enable developing countries to order ships with EEC shipyards. This could be done especially through assistance from European development fund.

3. Credit insurance to be made available at low Japanese premium level, both for EEC orders and for export.

The government guarantee scheme should include bid-bond and performance-bond guarantees especially for smaller EEC shipyards building ships for export.

4. Insurance against excessive inflation and against currency fluctuations.

5. Subsidies for research and development, specially for the building of new prototype vessels.

6. When shipyards would be forced to reduce their new building activities or completely close, the social fund as well as the European Investment Bank should assist with:

- (a) aid for social consequences of such an operation,
- (b) aid for retraining or reschooling of employees of these yards, who become redundant,
- (c) aid for stimulation of diversification projects.

7. Further incentives for shipowners:

- (a) Investment premiums for EEC shipowners ordering new ships with EEC shipyards and sailing them under EEC flags.

Such investment premiums exist in some EEC countries at the level of 20-25 per cent of the contract price. A similar system could be introduced for the whole EEC. It could replace to a large extent direct subsidies to EEC shipyards (see item 8).

- (b) Scrap and build premiums.

An EEC scrapping fund should be formed to implement a scrap and build scheme. Such a scheme has been applied in the past to modernise national commercial fleets and it could be considered on an EEC scale by giving premiums to EEC shipowners deciding to scrap older units of their fleet and undertaking to order new ships with EEC shipyards within a certain time limit after scrapping.

Instead of making scrapping an absolute condition sale of an older vessel outside the EEC could be accepted, under specific conditions to be determined, as alternative for scrapping.

8. If abovementioned measures cannot be implemented or are insufficient, direct subsidies on new orders expressed in a percentage of the contract price per ship should be introduced.

Financing from EEC funds should be considered.

9. Further measures which should be considered:

- (a) The problem of undervaluation of the yen should be discussed in the trade negotiations between EEC and Japan,
- (b) Investment subsidies or capital aid to improve production facilities in shipyards,
- (c) As 60 per cent to 70 per cent of the building costs of a ship represent materials and equipment obtained from independent suppliers, similar measures to the ones mentioned above should be taken to enable EEC suppliers to produce or supply at lower costs,
- (d) In particular EEC steel mills should be supported to enable them to offer lower steel prices to EEC yards in order to match Japanese steel price levels,

- (e) Fiscal measures should be introduced in the form of setting aside reserves out of annual profits to cover future losses or more general application of "carry back" system (losses to be compensated with profits made during previous years) and accelerated depreciation of yard installations.

10. The general principle of the measures to be taken should be:

- (a) Measures should be taken on a temporary basis: they should be considered for deliveries in 1978-1980 and should be decreased in the following years.
- (b) Measures should be granted as counter-measures against direct shipbuilding subsidies and general supporting measures of their countries outside EEC, especially Japan.
- (c) Measures should be executed on a harmonised basis within EEC.

As far as national measures are concerned a lower and an upper limit should be fixed on EEC level.

(See also below under 'Subsidies').

Social Costs

When one says that Community yards cannot compete on price, it does not necessarily mean that they are less efficient than the yards in Japan or South Korea. The social costs are much higher in the Community than in its main competitors and in general safety standards are higher and working conditions better.

The following table, indicating the level of direct and indirect wage costs for all industry in various countries indicates (in D-marks) the level which social costs have reached in much of the western world. Wage costs may not be much higher in the Community than in Japan but the newly emerging shipbuilding companies have a big cost advantage. The price mechanism may in the past have ensured an equitable distribution of orders (though some might contest this, pointing to the fall in the Community's share of world shipbuilding) but if it were to be relied upon to do so now, the Community would soon be without a shipbuilding industry.

(Source: the Institut der deutschen Wirtschaft)

<u>Country</u>	<u>Direct wage costs</u>	<u>Indirect wage costs</u>	<u>Total</u>
Sweden	13.96	6.79	20.75
Belgium	11.27	7.89	19.16
Federal Republic of Germany	11.26	7.66	18.92
Netherlands	11.14	7.58	18.72
Denmark	14.92	3.28	18.20
United States	13.06	4.70	17.76
Switzerland	11.37	4.88	16.25
Austria	7.02	5.86	12.88
France	7.24	4.99	12.23
Italy	6.29	5.54	11.83
Japan	9.03	1.54	10.57
United Kingdom	6.37	1.72	8.09
Ireland	5.80	1.33	7.13

Subsidies

No-one could pretend in any case that the price mechanism is now operating in the classical way. In theory, price should reflect costs and costs reflect efficiency and comparative advantage. In practice, given the fact that every shipbuilding country outside Europe, and a good many within it, subsidises its shipbuilders to a considerable extent, it reflects nothing of the kind. It merely reflects how much a government is willing to subsidise its yards.

In the short-term, if the Community is to ensure even a minimum level of orders, subsidies will have to be continued. Intervention funds which give the ordering shipowners a grant to cover the difference between the costs of a ship from a Community yard and the lowest possible price outside cannot be abolished in the immediate future.

The UK has had an Intervention Fund since 1977; the first fund of £68 million, approved by the Commission as part of the restructuring of the British industry, expire at the end of March this year. The £8 million remaining has been carried over until June, while the Commission considered the application for a new fund of £90 million. The stage has now been reached when the Commission have requested that further information should be made available to it; the same stage has been reached in its consideration of an Italian application as well. Clearly decisions on these funds are needed soon. Consideration might be given to extending the operation of such funds to all Member States, possibly with Community resources.

However, this could only be a temporary solution as the Community and Member States will not be able to afford for long the ever higher subsidies necessary to gain enough orders and in the long run another solution will have to be found.

Efficiency

As price no longer is an accurate reflection of efficiency, another way of measuring this must be found, as the Community cannot afford to maintain grossly inefficient yards. Man-hours per equivalent ton of steel is becoming more widely used as a measure of efficiency and has been supposed to be relatively accurate.

International agreements

One way of ensuring orders for Community yards would be to conclude agreements with major competitors as to what share of total orders each should have. Attempts have been made to come to an agreement with Japan, but little has come of this. Negotiations are still going on within the OECD but the Commission states that "it would be unrealistic to expect satisfactory results from organisation of the market by negotiations within the OECD" (page 20). As no other negotiations are apparently going on, it seems clear that the Community will not be able to ensure orders through international agreements.

Community preference

In view of the fact that Community yards cannot compete on price, that governments will not be able to afford the necessary high level of subsidies indefinitely, and that international agreements to share the market are not in sight, the rapporteur is led to suggest that a policy of Community preferences may be the answer. Such a policy would require Community shipowners to order all, or a high percentage of their ships from Community yards.

The questions which must be answered are: Is it fair? Is it possible and Will it work?

Is it fair? At the moment Community shipowners, even those in receipt of government aid, often place orders in non-Community yards. It seems somewhat ridiculous for governments to pour money into shipyards on the one hand, while with the other they give money to Community shipowners which goes to competing yards abroad, further strengthening competitors. Moreover

nearly all Community shipowners, whether in receipt of government aid or not, are now calling for Community help to combat the expansion of the fleets of state-trading countries, which undercut Community fleets on price. The price mechanism apparently does not work here either. Historically, with liner conference trade, price has been regulated by conference members despite protests from shipowners and governments using such lines. It would seem perfectly fair, therefore, if the Community takes the requisite action to protect their regulation of freight rates against cheaper competition (with higher prices for the consumer) to ask for a certain quid pro quo from the shipowners.

What would not be reasonable, however, would be to force them to pay prices grossly inflated through the inefficiency of the yards producing the ships. This is why an accurate measure of efficiency must be developed, so that the shipowner is asked for a "fair" price for the ship. This price may not be as low as a Japanese or South Korean one, but the owner should remember the technique of selling at a loss to build up a dominant position. It will be in no way to his advantage if the Community does not maintain a viable shipbuilding industry (both for merchant and military vessels).

It seems as though the Commission is beginning to appreciate this state of affairs, though it seems to be against Community preference, as the communication states on page 13: "Owing to the unshakeable advantage of certain competing shipbuilders, at least in the short-term, market forces will not ensure that certain types of ship are competitive on the international market - and this already seems to be the case for tankers and bulk carriers - despite restructuring and despite the measures referred to above. Measures may, therefore, have to be taken to forestall the potential dangers of a situation where certain shipbuilding countries have a monopoly".

Is it possible? The compulsion exerted on the shipowner to "buy Community" could vary from a request that aid would be given only if Community preference were observed to a legal obligation to buy all his ships in the Community. If a relatively hard line were taken, nearer to the latter than the former, there would have to be some sort of measures to ensure the shipowner did not evade his obligations by switching to a flag of convenience. Discriminatory aids and regulations have been part of government and Community action plans against non-Community countries' unfair financial shipping and shipbuilding policies.

Would it work? This is of course the key question. It should not be forgotten that shipowners already place more than two-thirds of their orders in Community yards (the figure fluctuates somewhat, being 69% in 1976 and 74% in 1977).

A look at the pattern of exports and imports of ships from and to the Community may be instructive here and the level of production in each Member State (see opposite).

However, although the figures for the Member States indicate a large trade in new ships, much of this is within the EEC. Looking at the Community as a whole in 1975, 7.5m grt was produced, of which 3.69m were for home markets, 1.32m for other EEC countries and 2.74m (35%) for export. In the same year 6.95m grt of new buildings were registered in the EEC of which 1.94m grt were built in non-EEC countries.

The most important figure to look at when considering the idea of "Community preference" is that of new buildings registered in the Community. With a policy of 100% Community preference, shipyards would be assured of this much demand. Moreover, as exports, at least for 1975, amounted to some 35% of total production, demand from Community yards would be higher than just Community demand. In spite of the fluctuations in demand, if orders from within the Community could be ensured, bearing in mind that Community fleets make up about a quarter of the world total, the EEC shipbuilding industry would have a sound basis on which to plan its future.

HOW MIGHT ORDERS BE DIVIDED WITHIN THE COMMUNITY?

If each Member State were to maintain the share of Community shipbuilding it had from 1975-77, one could estimate what they would produce if total Community production in 1980 were to be 2.4m cgrt:

	<u>Share of Production</u>	<u>Estimated 1980</u>
	%	<u>production</u>
		'000 cgrt
Belgium	2.5	60
Denmark	10.7	257
France	17.9	430
Federal Republic of Germany	30.2	725
Ireland	0.36	8.7
Italy	8.8	212
Netherlands	14.7	352
United Kingdom	14.8	355

EXPORT/IMPORT OF NEW TONNAGE BY EEC MEMBER STATES¹

'000 grt

	1970		1972		1973		1974	
Country	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium (st)	51	106	1	172	51	97	Ø	69
Denmark	16	468	123	321	148	533	206	648
France	216	367	115	648	471	696	1,133	532
Germany	511	944	257	995	93	1,196	50	850
Ireland	1	-	33	-	41	-	Ø	-
Italy	1	86	12	126	117	84	Ø	66
Netherlands	38	233	134	592	192	859	212	902
UK	1,652	186	2,834	370	3,493	335	2,859	244

	1975		1976		1977	
Country	Imports	Exports	Imports	Exports	Imports	Exports
Belgium (st)	3	59	6	111	31	3
Denmark	318	716	314	536	164	196
France	519	639	751	755	588	642
Germany	97	1,683	427	1,348	302	248
Ireland	Ø	-	12	-	21	39
Italy	65	9	221	7	16	108
Netherlands	118	663	51	592	85	91
UK	<u>2,141</u>	<u>349</u>	1,112	464	<u>1,191</u>	431
	3,281	4,118			2,398	

NOTES:

Germany is the major exporter in the EEC, exporting over 50% of its output during 1970/1977 and its ratio of imports to exports averages 1:8

Denmark and the Netherlands, although relatively small in tonnage terms, are also consistent exporters

UK is the only major importer of new ships in the EEC

Ø = Negligible

¹ This data was supplied by British Shipbuilders

MERCHANT SHIPBUILDING COMPLETIONS IN EEC 1970-1977 '000GRT¹

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Belgium	149	153	219	230	256	201	211	132
Denmark	518	728	952	1,004	1,076	969	1,034	709
France	859	1,086	1,030	1,170	1,046	1,150	1,673	1,107
W. Germany	1,317	1,968	1,389	1,926	2,141	2,499	1,874	1,595
Ireland	28	23	28	32	1	31	29	40
Italy	546	872	902	837	953	792	715	778
Netherlands	632	572	750	852	942	1,028	634	240
UK	1,327	1,233	1,197	1,067	1,198	1,170	1,500	1,020
TOTAL EEC	5,376	6,063	6,467	7,118	7,613	7,840	7,670	5,621
Western Europe (AWES)	<u>8,513</u>	<u>9,860</u>	<u>16,633</u>	<u>11,914</u>	<u>12,542</u>	<u>13,103</u>	<u>12,742</u>	<u>10,771</u>
TOTAL WORLD	20,980	24,388	26,749	30,409	33,541	34,203	33,922	27,532

¹ This data was supplied by British Shipbuilders

The percentage cutback from the average of the years 1975-77, some 4.5m cgrt, to 2.4m cgrt would be about 47 per cent.

The state of order books at the moment, however, indicates a sharp run-down in orders from 1978 to 1979, so serious unemployment problems will arise this year, making action to obtain orders for the EEC extremely urgent.

Certain shipbuilding representatives have told the rapporteur that they would not regard it as fair for every country's production to be cut back equally, given the fact that while certain countries have expanded their output in recent years, output in others has remained constant or has fallen.

The table below, derived from the table on page 36, bears out their contention, showing that while the Netherlands' share of Community production fell drastically, and that of the United Kingdom to an appreciable extent, the other countries, with the exception of Belgium, managed to increase their production share.

(It should be noted that the percentages in the previous table giving production shares over the years 1975-1977 were calculated on the basis of cgrt, while the present table was calculated on the basis of grt, the cgrt figures not being available).

Share of Community production - grt

	<u>1970</u>	<u>1977</u>
UK	24.68	18.15
Belgium	2.77	2.34
Denmark	9.64	12.61
France	15.98	19.69
W. Germany	24.50	28.37
Ireland	0.52	0.71
Italy	10.16	13.84
Netherlands	11.76	4.27

In any Community plan for the shipbuilding industry it will sooner or later have to be decided where the cutbacks should take place. Various factors will have to be taken into consideration: apart from the above consideration of the recent development of the industry, the percentages of domestic orders in total production (or export/import ratio) could usefully be examined, as well as the regional and social consequences of cuts in the different areas.

THE SHIPBUILDING COMMITTEE

The Commission proposes the establishment of a Shipbuilding Committee which would, presumably, have as its tasks the consideration of exactly such factors as mentioned in the last paragraph. Nevertheless, in spite of the importance of such an examination, the rapporteur has serious doubts as to how efficacious such a committee would be. It would be composed of senior civil servants responsible for shipbuilding policy from the various Member States and a member from the Commission. It seems to the rapporteur that it would be much more useful to have a committee including representatives of the management and unions involved, and in view of the Commission's use of tripartite conferences in the past, it is strange that this was not proposed. The unions and industry have indeed already expressed their concern.

CONCLUSIONS

It can be seen from the above analysis that although the Commission has made a welcome start in examining the problems of the shipbuilding industry and outlining priorities, there is much left to be done and not much time in which to do it. The primary role of the Commission must be to indicate how action already taken at national level can be coordinated so as to have the maximum efficacy, and where it should be supplemented by further action, part of which might be taken at Community level.

Such a role involves closely examining the various steps which could be taken to aid this industry, several of which have been suggested in the present report. This is not to say that an overall plan detailed down to the last nut and bolt must be presented before any further action is embarked upon, but that all possible options must be considered before the course is plotted.

The Committee would strongly encourage the Commission to push ahead with the necessary examination and hope there will not be any tendency to think that the major problems will be solved by setting up a Shipbuilding Committee. The Commission itself must follow through in this sector the start it has made and enable the necessary political decisions to be taken at national and Community level in full knowledge of the situation confronting the European shipyards and the ways in which a viable shipbuilding industry can be ensured.

INTERIM OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: The Earl of BESSBOROUGH

--
On 1 February 1978 the Committee on Budgets appointed the Earl of Bessborough draftsman.

It considered the interim opinion at its meeting of 24 May 1978 and adopted it unanimously.

Present: Mr Lange, Chairman; Mr Cointat, Vice-Chairman; Lord Bessborough, draftsman; Mr van Aerssen, Lord Bruce of Donington, Mrs Dahlerup, Mr Hamilton, Mr Ripamonti, Mr Schreiber, Mr Shaw and Mr Spinelli.

Introduction

1. The Committee on Budgets has been consulted for its opinion on the Commission's Communication to the Council on the reorganization of the Community shipbuilding industry (Doc. 471/77). The draftsman for the opinion decided that in accordance with the procedure adopted during the examination of the Commission's proposals for a European Export Bank (Doc. 41/76) and for the Informatics Programme (Doc. 294/75), it would be appropriate to consult as widely as possible with the industry and all interested parties concerned, to find out if the industry has been adequately consulted, and to discover the general views of those most concerned with the Commission's proposal.
2. This is of particular importance to the Committee on Budgets because the Committee is concerned with the feasibility of the proposals. If, for example, the industry fears that the amount that it is expected to contribute towards the overall costs of the programme is unrealistic, then this will have a clear and direct bearing on the Committee's view of the feasibility of the proposals. Your draftsman, therefore, sent a letter (PE 53.121, see Annex I) to the industry concerned. A list of those consulted is annexed (PE 53.121, see Annex II), as are the replies so far received (PE 53.121, see Annex III).
3. Your draftsman also wrote to the Commissioner for the Budget because the financial consequences of the Commission's proposals are not adequately illustrated in the Communication. Indeed, there is major uncertainty as to the means of covering extra expenditure, the size of Community expenditure, the financial instruments proposed and the methods used by the Commission in calculating the cost of the proposals.
4. At its meeting of 19/20 April 1978 in Rome, the Committee on Budgets proceeded to an initial exchange of views, during which several members echoed the expressions of concern made by your draftsman. The Commission representatives undertook to reply to questions raised concerning the financial impact of the proposals. These answers have now been received (PE 53.680).
5. It will be seen from these replies that the Commission has been in some difficulty in amplifying or explaining its original estimates. It should be recalled that this proposal is simply a Communication, setting out general policy guidelines for the future. Detailed programmes would, presumably, follow. Nonetheless, it is appropriate that the Committee on Budgets should explain in full any reservations it might have, lest silence be interpreted as consent. In order to guarantee that the Committee on Budgets will, in the future, have an opportunity to come back to this issue, both when examining proposals for the 1979 draft budget and when the Commission makes more detailed proposals, it is suggested that this document be entitled an "interim" opinion.

The Commission's approach

6. The Commission has noted the fundamental crisis in the shipbuilding sector, characterised by the outstripping of demand by supply. World production expanded rapidly up until the oil crisis in order to meet a growing number of orders. This development of over-capacity has been aggravated by the oil and economic crises and a serious imbalance in the world market has occurred as a result of undercutting through a price war, not primarily conducted from Japan, but in particular from the high growth developing states like Taiwan and South Korea. The Community share of the world market has fallen from 70% in 1955 to 22.6% in 1976. On the basis of this share of the world market holding, the Commission sets a target or an "indicator" of 2.4 million compensated gross registered tons (cgrt) for the early 1980s. It is proposed to tailor production to this objective, which would thus determine the various steps required for the reorganization of the industry.

7. To this end, the Commission proposes:

- (i) a coordination of aids within the Community;
- (ii) social policy measures in order to take account of the social consequences of the restructuring;
- (iii) Community financial aid to assist in conversion;
- (iv) Community action against marine pollution, thus creating more demand for the yards;
- (v) setting of certain minimum standards and social rules leading, perhaps, to the banning of certain ships from Community ports if they do not comply;
- (vi) the development of a sea transport policy, again strengthening the position of Community shipyards;
- (vii) on the basis of this reorganization, a decision at international level to obtain a balanced reduction of worldwide over-capacity and the removal of disequilibria.

8. However, the Commission rejects any solution which would limit the freedom of choice of the Community shipping industry in world markets. It states that "our ship owners must be free to order their vessels wherever the terms appear to them to be most advantageous". ¹

¹ Page 20 of the Communication.

9. In terms of actions, all the Commission suggests for the moment is that Council should adopt a resolution¹ taking note of the production target and setting up a Shipbuilding Committee drawn from senior officials of the Member States, and indicating that the Commission will submit further proposals for additional social measures.

Views of Industry

10. Inevitably some of the replies from the organizations contacted have gone into matters outside the terms of reference of the Committee on Budgets. However, some picture of the feasibility of the Commission's proposals emerges. It transpires that some consultation has taken place. The Commissioner held a meeting with the Linking Committee of the European shipbuilders in October 1977, prior to the publication of the proposals. There was a further meeting in January of this year when the Committee reacted to the Commission's proposals. Furthermore, the Commissioner has had some contacts with national federations and organizations representing the shipbuilders. Regrettably, consultation with individual firms does not appear to have taken place. There is general agreement with the Commission's analysis of the crisis situation resulting from this global imbalance between production and demand. Some of the respondents wish that the Commission had attached more weight to the unfairness of the price war conducted on the international market and on the particular economic and social problems confronting European industry which have hindered its effectiveness.

11. Most of the disagreement concerns the centre-piece of the Commission's approach - namely the setting of a production objective of 2.4 million cgrt. The Linking Committee objects to any arbitrary production target and, in particular, believes that the target suggested by the Commission is inappropriate because there is little likelihood that the current distribution of shipbuilding orders would be maintained in the period starting in 1980. Furthermore, it is felt inappropriate to set any figure by reference to the former share-out of world production. It will be for the Committee on Economic and Monetary Affairs to examine whether it considers the Commission's figures realistic and whether it is wise to envisage a static world demand for 1980 onwards. For its part, the Committee on Budgets notes with disquiet that the industry concerned does not accept the figure provided by the Commission as a target for Community production and from which the Commission's policy measures flow.

¹ Page 21 of the Commission's Communication.

12. As regards the conversion and redeployment measures, the Commission makes no mention of national measures, such as the Shipbuilding (Redundancy Payments) Bill now passing through its final legislative phases in the United Kingdom. It would have been helpful if information on the problem of redeployment in the shipbuilding industry in the various Member States had been evoked. Whilst the level of redundancies remains uncertain as a result of these national measures, it is clear that the Commission's proposals, based on a figure of between 75,000 and 90,000 redundancies, may have been overtaken by events. Neither in its original proposal, nor in its replies to the questions raised at the meeting of the Committee on Budgets on 19/20 April, has the Commission addressed itself to this point. In the view of some of the respondents, the number of redundancies mentioned in the Commission's document seems too low and does not sufficiently take into account the effect on ancillary industries.

13. Both in the replies and in the discussions that have taken place in the Committee on Economic and Monetary Affairs, there has been a searching for new ideas and approaches. Some have laid the emphasis on stimulating demand by a scrap-and-build policy. Others have sought to advance the case for a Community preference scheme. Without taking any position on this proposal, which is outside the terms of reference of the Committee on Budgets, it does seem to your draftsman that the Commission is at fault in not examining this proposal sufficiently; it limits itself to a simple expression of hostility to any constraints on ship owners purchasing outside the Community. Finally, there has been an idea floated of a Community intervention fund for shipbuilding production placing at the Communities' charge the costs of the difference between Community price and world price.

14. The Commission has not dwelt on the matter of foreign competition and a means of combating it. If there are changes in the patterns of shipbuilding production amongst the main rivals of the Community, this would have been useful to know. If there is a reasonable prospect of obtaining international agreement to limit the effects of the price war then this should have been stated. Everything would seem to depend on the ability of the Community to reverse the rapid and massive decline of its share in the world market. The Commission does not indicate the balance of probability on this crucial point.

Financing of a Community shipbuilding policy

15. Because a Community policy for shipbuilding remains at the "white paper" stage, the Commission has been very reluctant to supplement the meagre financial information provided in Annex II of its document.

Expenditure will arise to cover investment for rationalising and modernising equipment, production techniques, management etc (estimate 900 million u.a.), compensating redundancies through new job creation caused by the expected 60,000 job-loss (3,000 million u.a.) and, in parallel, compensation for the 30,000 job-loss for the ancillary industries (750 million u.a.). Thus a total of 4,650 million u.a. (or approximately 1,000 million u.a. per year) would result from the full conversion and restructuring schemes.

16. It is obvious that such massive outlay would require the clearest possible justification from the Commission. The Commission has not explained in the information provided how it arrives at the total numbers of jobs to be found, or even at the unit costs of new job creation. Why, for example, for a job lost in the shipyard should a new job cost 50,000 u.a. and a job lost in the ancillary industry only 25,000 u.a.? The explanation on this point is too succinct to be convincing. Indeed, the figures provided in general give the impression of having been selected at random. It was for that reason that your draftsman posed a certain number of questions to the Commission representative at the meeting of the Committee on Budgets on 19/20 April in Rome, following his original letter to the Commissioner with responsibility for the budget.

The replies provided (see PE 53.680) do not fill in many of the gaps. They do little more than repeat what little meagre information already appears in the Annex to the Communication.

17. As far as the breakdown between national government, Community and industry is concerned, no further details are given. It will be recalled that, in its Communication, the Commission estimates that national governments could contribute up to 1,750 million u.a., on the basis of the financial contribution already made by public authorities. It would seem that here the Community would be asked to contribute from financial instruments already in existence, such as the European Regional Development Fund and the Social Fund, as well as Article 375, created during the last budgetary procedure, which is designed to provide a small economic aid for industrial conversions.

18. Given that for 1978 and for all the different industrial sectors a total of 17 million u.a. has been entered for Article 375, it is unlikely that considerable help could be provided from this line. There is no attempt to state to what extent the Social Fund and Regional Fund could play an increasing role, but it is clear that, given Council's restrictive attitude in the past, it would not be likely that the Community could make a major contribution towards easing the shipbuilding crisis.

19. As regards the contribution expected from the shipbuilding companies, it is suggested that they should be asked to finance the restructuring by up to 2,900 million u.a. This figure would seem high in view of what the Commission admits is the difficult liquidity position of the firms. Furthermore, that view is confirmed by nearly all the respondents who believe that the firms would find it impossible, in view of the very tight market situation, to undertake considerable outlays in new investment.

20. Therefore, the success of this policy would depend on the Community's ability to contribute to the financing of this policy through the capital market, both via the European Investment Bank and by recourse to Community borrowing. It will be recalled that the European Parliament has just approved the principle of borrowing to finance Community investments (report by Mr SPINELLI, Doc. 36/78). However, the finance raised by this new facility will be limited to 1,000 million EUA and will cover a variety of policies, industrial restructuring in various sectors, regional policy, energy policy etc. Only a small proportion could be expected to go to shipbuilding. Furthermore, it would be unwise to foster illusions as regards the use of borrowings to finance industrial restructuring. This is simply a means of deferring but not avoiding Community current expenditure. That current expenditure is limited now and for the foreseeable future by the limits placed on own resources. Even at the current rate of growth of the Community budget, the limits of own resources will soon be reached. The Commission has not informed the Committee how it intends to cover the extra finance.

Conclusions

21. The Committee on Budgets:

(i) accepts that the Community should participate in industrial restructuring where such a restructuring is beyond the means of the Member State. However, the Community should concentrate its efforts on those sectors for which its competence is generally agreed and where there is a reasonable expectation that the sector can be made profitable once again;

- (ii) considers that before an industrial sector should be decided upon as suitable for Community support, all the policy options should be laid before Parliament;
- (iii) considers that, in this particular case, the Commission is primarily putting forward the case for Community support to deal with extensive likely redundancies; new industrial investment within the shipbuilding sector is of secondary importance in the proposals;
- (iv) therefore, considers it regrettable that the Commission makes no reference to national redundancy schemes in the shipbuilding sector, which have caused the Commission's proposals to be no longer entirely relevant;
- (v) calls into question, on the basis of the consultations that have taken place, the appropriateness of the target figure for production upon which the proposal is based;
- (vi) cannot make any meaningful assessment of the financial consequences as only the most general information has been provided and as the sums mentioned have had doubts cast upon them;
- (vii) regrets that the Commission has not been able to provide any breakdown within the sums mentioned, either distinguishing between capital and current outlays between the Community budget or as between national and Community expenditures;
- (viii) could not approve Community support in this sector if that were to lead to a reduction in finance available for other sectors within the existing funds, such as the European Regional and Social Funds;
- (ix) whilst recognising the urgency for action, believes that the Commission should re-submit proposals accompanied by realistic financial estimates, duly justified, and within the capability of the Community budget as we know it;
- (x) further calls upon the Commission to re-examine all the policy options in the light of the views expressed by Parliament and to present a range of options with the different financial estimates attached.

Brussels, 8 May 1978

Reply to Lord BESSBOROUGH's questions posed at the meeting
of the Committee on Budgets on 20 April 1978 in Rome

1. As the Commission stated in the annexes to its communication, especially in Annex II, the estimates of the costs of conversion and reorganization over the next 5 years rest on conclusions regarding the workforce and production facilities, drawn from forecasts of demand. Of course this global approach will have to be formulated in greater detail once the consequences of the crisis are better known.
2. The Commission does not think it desirable, at least at the current stage of discussions on its programme, to make suggestions either on the instruments which Member States should use to help finance the rationalization of the shipbuilding industry, nor on the funds to be made available for the purpose. The possibilities in each Member State are governed by a host of differing factors.

However, it would repeat the view it expressed in Annex II that intervention by Member States to support production should progressively be directed towards attainment of the common objectives of reorganizing the shipyards.

3. The Commission cannot a priori, even on an indicative basis, fix figures for Community intervention, which will be determined largely by the efforts made by the private sector and the national authorities in the Member States. Nevertheless it feels that Community participation must be significant enough to encourage shipbuilders to pursue the objectives to be laid down by the Council.

The Community could cover its financial share in the reorganization of the industry by drawing on:

- the budget heading for structural changes in industry;
- part of the funds available from Community borrowing, and
- the ERDF, the Social Fund and the EIB.

4. As intervention by public authorities is only intended to act as a stimulus, it is primarily for the industry to organize finance for its schemes. The Commission estimates that the shipbuilders could find about 60% of the necessary funds, i.e. 2,900 million u.a.. It is assumed that the industry would raise the money from its own resources and the capital markets. The purpose of public intervention would be to enable it to do so, and to facilitate the process.

5. The Commission's analysis was based on the assumption that the crisis in the shipbuilding industry is not simply a result of the reduction in demand for new tonnage, which is not entirely cyclical in nature, but has also been caused by the appearance on the market of new and extremely competitive producers. These factors help to postpone still further any return to a balance between supply and demand, and add a structural element to current difficulties, both in respect of surplus capacity and the uncompetitiveness of part of that capacity.

In proposing a reduction in Community shipyard capacity, the Commission has two objectives: to face up to a long-term slump in demand and, by upgrading the remaining yards, to enable them to take a larger share of orders placed when the market does recover.

The Commission has therefore proposed an assessment of the volume of demand in a few years' time, to give a guideline for the adjustment of production capacities.

At first analysis it took the figure of 2.4 million Cgrt, on the basis of an AWES forecast, as a starting point for the discussions with the governments of the Member States on the one hand and interested parties on the other.

6. The Commission feels that only a return to a balanced market can finally solve the price-cutting problem.

Efforts in this direction within OECD have resulted in undertakings by Japan, under pressure from the Community in particular, to strengthen its control over export prices and to increase them by 5%.

It is proving difficult to obtain a similar response from other countries, especially the new, cheaper shipbuilding countries, in the absence of any means of enforcing such measures, especially with the loop-hole provided by the flags of convenience.

Finally, it should be stressed that the introduction of a minimum price system for shipbuilding would provide no solution to the social and regional problems which will inevitably arise from the need to align capacity with the prospects of the industry.

Letter from the Draftsman of the Committee on Budgets to the shipbuilding industry and other interested organisations

EUROPEAN PARLIAMENT
Committee on Budgets

Strasbourg, 15 February 1978

- From the Earl of Bessborough

Dear Sir,

I have been appointed draftsman for the Opinion of the Committee on Budgets of the European Parliament on the Communication from the Commission of the European Communities to the Council on the reorganisation of the Community shipbuilding industry (Doc. 471/77). Please find a copy enclosed. The European Parliament, as you know, has to be consulted before any final decision is taken by the Council of Ministers.

I would be grateful for your views in order to assist myself and my colleagues in formulating a position on these proposals. In particular I would be grateful if you could address yourself to the following questions:

- (i) was your firm consulted by the Commission in the preparation of its proposals?
- (ii) do you agree with the Commission's basic analysis of the crisis in the shipbuilding sector?
- (iii) do you believe that the policy instruments put forward by the Commission are appropriate?
- (iv) do you believe that the orders of magnitude suggested by the Commission for the funding necessary to achieve restructuring of the industry are appropriate?
- (v) during the next five years, what do your firm's corporate plans for expenditure envisage by way of shipyard restructuring and internal conversion? (see Annex II of Commission's proposal)
- (vi) what new technology in design and construction do you consider to be required in order to achieve an improved competitive position and what would be the costs of such a development?

I would be grateful if you could let me have your replies as soon as possible since the European Parliament expects to determine its attitude to the Commission's proposal in time for its April part-session. Perhaps you could also indicate if you would prefer your reply to remain confidential.

Yours truly,

The Earl of Bessborough

ORGANISATIONS CONTACTED

The Association of West European Shipbuilders,

Mr J. Holck,
The Danish Shipowners' Association,
Armaliegade 33,
1256 Copenhagen,
DENMARK

Constructions Navales & Industrielles de la Méditerranée,
Bd. Albert 1^{er},
83 La Seyne-sur-Mer,
FRANCE

Chantiers de l'Atlantique,
7 rue Auber,
F-75428,
Paris Cédex 09,
FRANCE

Chambre Syndicale des Constructeurs de Navires et de Machines Marines,
47 & 49 rue de Monceau,
Paris (8^e),
FRANCE

Constructions Navales (Ste Francaise de),
66 Qu. Alfred-de-Sisley,
F-92390,
Villeneuve-la-Garenne,
FRANCE

Mr A. MacDonald,
The British Shipbuilders' Association,
12-18 Grosvenor Gardens,
London, SW1

Ronnie Grierson, Esq.,
General Electric Co.,
1 Stanhope Gate,
London, W1

John I. Thornycroft & Co. Ltd.,
Woolston Works,
Woolston,
Southampton,
Hants.

Swan Hunter Shipbuilders Ltd.,
Wallsend,
Northumberland.

Vosper Ltd.,
Southampton Road,
Paulsgrove,
Portsmouth,
Hants.

Austin & Pickersgill Ltd.,
Southwick Yard,
Southwick,
Sunderland.

Cammell Laird & Co. Ltd.,
Shipbuilding & Engineering Works,
Birkenhead,
Cheshire

Upper Clyde Shipbuilders Ltd.,
Linthouse,
Glasgow SW1

Scott & Sons (Bowling) Ltd.,
Little Mill Slip Docks,
Bowling,
Glasgow

Yarrow (Shipbuilders) Ltd.,
Scotstoun,
Glasgow W4

Unione Cantieri e Industrie Navali (UCINA),
Via Giardino 4,
20123 Milan,
ITALY

Assonave (Associazione Nazionale fra Costruttori Navi Altomare),
Via XX Settembre 1,
00187 Rome,
ITALY

Federazione Nazionale Cantieri Officine Allestamenti Navali (UNAVAL),
Via Nazionale 214,
00184 Rome,
ITALY

BREMER VULKAN,
Schiffbau und Maschinenfabrik,
Weserstrasse 64/67,
282 Bremen-Vegesack,
WEST GERMANY

Husumer Schiffswert Kaltschmidt & Kleeback GMBH,
Zingel 14,
225 Husum,
WEST GERMANY

Howaldtswerke-Deutsche Werft AG,
Finksweg 29 - 2,
Hamburg 11,
WEST GERMANY

Verband Deutsche Schiffswerften,
Ander Alster 1-2,
Hamburg,
WEST GERMANY

ANNEX III

Krupp Fried, GMBH Krupp Reederei & Kunststoffhandel,
11 Baakenwerder Strasse,
4 - Hamburg
WEST GERMANY

Glensburger Schiffsbau-Gesellschaft,
Postbox 145,
D - 2390,
Flensburg,
WEST GERMANY

Boden-Werft Motern & Schiffbau GMBH,
Bodenstrasse,
7993 Kressbronn,
WEST GERMANY.

Holland Shipbuilding Association
POB 98
Dordrecht
NETHERLANDS

REPLIES RECEIVED

From: EEC Shipbuilders' Linking Committee
 Austin & Pickersgill Limited
 British Shipbuilders
 Chambre Syndicale des Constructeurs de Navires et de Machines
 Yarrow (Shipbuilders) Ltd
 Holland Shipbuilding Association

Reply received from EEC Shipbuilders' Linking Committee

The position of the EEC Shipbuilders' Linking Committee on the communication to the Council 'Reorganisation of the Community Shipbuilding Industry' (COM(77) 542 final)

1. General position of the Linking Committee

While the shipbuilding industry of the EEC accepts that there is considerable overcapacity in the world shipbuilding industry, they cannot agree to further reduction in capacity without some purposeful proposals from the EEC on how an industry of reduced size could be maintained as viable in the future.

2. Concerning the description of the situation

The Commission correctly notes that the crisis situation in the Community shipbuilding industry results from a worldwide structural imbalance between production capacity and demand.

It is, however, not mentioned that the capacities of the Community yards, in comparison with others, have been expanded in a very cautious way. The overcapacity is certainly not caused by the EEC shipbuilding industry.

The Linking Committee remarks that the document emphasises the inadequacy of our competitiveness without any reference to the overcost resulting from its economic and social environment and high safety standards (this is not peculiar to shipbuilding but is prevalent in the whole of Community industry and even in the Community's economy), and to the excessively low prices now quoted on the international market as a result of the keen competition now prevailing.

The selling prices of yards in non-EEC countries are in many cases not cost-based but designed to oust the others from the market. For instance in 1976 Japanese prices were 20 to 30% lower than in 1974, although international statistics indicate high price and cost increases in Japan.

Paragraph I.A.2 of the Commission's Communication does not mention the dependence of many Community yards on production for export. This is not the least of the reasons that the Community shipbuilding industry is so hard hit, for until now these yards exported the major part of their production.

Their quota in world shipbuilding export markets has dropped very sharply due to the upsurge of protectionism in recent months, and due to the attempted ousting of competitors from export markets by the Japanese shipbuilding industry.

The Linking Committee requests the Commission to give its evaluation on the structure and situation of the EEC shipbuilding industry in the Communication to the Council.

3. Concerning a Community production objective

Under point IV - proposal for a Council resolution - it is proposed that the Council endorse a production objective of 2.4 m. cgrr.

The Linking Committee objects in principle to any arbitrary production target and advances the following main reasons for its refusal (see also enclosure I):

- in the present circumstances the quota of 2.4 m cgrr presupposes a distribution of world shipbuilding production in 1980 of 1/3 each to the EC area, Japan and third countries. Such an assumption would however imply international agreements on the distribution of newbuilding orders
- failing to have reached such agreements, the Community shipbuilding industry, exposed to unfair market competition, is unable by itself to maintain its market share of recent years
- for that reason, the Community production objective can, in the present circumstances, not be determined by reference to the former shareout of world production.

The Linking Committee considers that the capacity of the EEC shipbuilding industry should be sufficient to enable it to play its full role taking into account its strategic importance for the independence of the EEC economy.

It is very important to the Linking Committee that adequate shipbuilding production be ensured during the years 1978, 79 and 80, and on this basis to take all the necessary measures at Community, member state and industry level.

4. External and internal competition as crucial questions

It is noted in point I.B.3 that, from a competition angle, the Community has drawn up directives on aid, aiming at harmonisation of governmental aid measures and diminishing the intensity of aids detrimental to internal Community competition.

The Linking Committee supports a fourth directive in order to avoid distortion of competition within the Community

This is all the more urgent as the shipbuilding policy adopted in the EEC should ensure the survival of an internationally competitive industry.

5. Priority both to ensuring a suitable level of shipbuilding activity and to reconversion

The Communication gives the impression that to protect activity the Commission relies completely on measures taken by individual member states.

The Linking Committee suggests that the Commission should think of introducing Community measures for protecting activity, and requests the Commission to recognise activity preservation and reconversion as equally important aim

The Linking Committee further requests clarification on the 600 m. U.A. figure before it can make any comment.

6. Reduction of capacity vis-à-vis reduction of production

In the Commission's Communication no distinction is made between reduction in capacity and reduction in activity. It is however a fact that shipbuilding activity must be continuously adjusted to the level of demand which is itself geared by the market situation, whereas capacities must be adjusted to the structural change in requirements and to the level of these requirements as estimated in the long term.

The Linking Committee is of the opinion that a cut in capacity, based on the present situation of crisis, would result, taking into account the recovery expected in the early 1980's, in dismantling the European shipbuilding industry which would no longer be able to maintain its proper position on the world newbuilding market.

The Commission estimates that 75,000 more blue collar workers will become redundant. Also white collar workers should be covered in the employment figures.

In the present difficult economic circumstances, the creation of new jobs for these redundant workers seems to be very uncertain.

As to internal reconversion, possibilities are very limited, and, taking into account previous failures, this seems very unlikely to be successful.

According to the Linking Committee the Commission's estimate for unavoidable redundancies in related industries should, taking into account the figure advanced for redundancies in the yards themselves, at least be doubled.

The Linking Committee welcomes the intervention of the Social Fund and the Regional Fund. In this context it should, however, be clarified as soon as possible, which additional measures are possible in the framework of the Social Fund.

The Linking Committee has investigated the Commission's proposals for financing the rationalisation and reconversion measures and would request further information on measures which the Commission has in mind, information which would enable shipbuilders to consider the reconversion possibilities. There is little or no prospect of the shipbuilding industries being able to provide financing for these purposes from their own resources.

In enclosure II the Commission notes that an investment volume of 4.65 billion U.A. would be financed as follows:

- | | |
|--------------------------------------|------------------|
| 1. member countries national budgets | 1,750 billion UA |
| 2. financing by enterprises | 2,900 billion UA |
| (a) own capital | |
| (b) Community loans | |

Remains to be seen:

Concerning (1): how these amounts are distributed amongst member states and how they can be raised there

Concerning (2): what part will be covered by Community loans; on what conditions these loans will be granted and if interest subsidies will be given.

7. Marketing measures / stimulating demand

To stimulate demand for new tonnage it is necessary to promote a coordinated common maritime policy; in several places the paper seems to accept the need for such a maritime policy but no specific measures are proposed to achieve it.

The Linking Committee considers that the introduction of environmental and safety measures is not being given sufficient support. Since this matter will be presented at the IMCO Diplomatic Conference in February 1978 for discussion, the Commission should advance a positive and unambiguous standpoint as soon as possible.

The Linking Committee also suggests that it is advisable to consider a scrap and build programme in the context of a general EEC maritime policy.

8. Action at international level

The Commission is in favour of the enforcement of Community actions at international level.

ANNEX IV

At the same time the Commission says that no satisfactory results can be expected within OECD as regards the organisation of the market.

In this situation the Linking Committee asks, what ideas the Commission has in respect of action at international level.

•

Reply received from Austin & Pickersgill Limited

Dear Lord Bessborough,

I am replying to your letter of 14 February, awaiting me on return from abroad, about Working Document 471/77 of the European Parliament.

As you no doubt appreciate, we are now a member company of the publicly-owned corporation, British Shipbuilders, and it may well be that the consolidated view of the industry on this Document should be sought from the central policy group. The appropriate person to write to, if you have not already done so, would be -

M.B. Casey, Esq.,
British Shipbuilders,
243, Knightsbridge,
LONDON SW7.

I am therefore confining myself to rather superficial personal answers to your questions:

(i) No.

(ii) Yes

(iii) Broadly speaking, Yes, but coherent action on many will prove difficult to achieve in the rather limited time available. Furthermore, it seems reasonable to postulate that those national shipbuilding industries which have expanded their output most should accept a larger percentage share of the overall contraction than those which have expanded least. The most useful action in the short term might be for the European Communities to use their "muscle" within OECD to halt the present credit race, particularly in respect of ships for the so-called lesser developed countries, which has already got quite out of hand, except in the UK. A return to harmonised credit would permit a substantial reversion towards orderly marketing, dependent only on price (whether subsidised or not), in place of the total chaos at present prevailing, worldwide.

- (iv) Unable to make a judgment.
- (v) We have just completed a £30 million reconstruction of our shipyard. No further plans for major investment are envisaged at present. We have no plans for radical diversification of resources.
- (vi) Radically new technology in ship design is seldom well received by shipowners unless they themselves initiate it. Production technology is unlikely to advance in the next 10-15 years, except perhaps in the field of computer-aided design, at anything approaching the pace of the last 10-15 years. Ship types will continue to evolve principally to meet the demands of the market place. Few radically new types of vessel are likely to appear, except perhaps in the offshore sector where production technology continues to change at a rather fast rate.

I hope the above remarks may be of some small help.

Yours sincerely,

Chairman

Reply received from British Shipbuilders

Dear Lord Bessborough,

Thank you for your letter of 14 February, 1978 asking for the views of British Shipbuilders on the Communication from the Commission of the European Communities to the Council on the reorganisation of the Community shipbuilding industry.

I enclose for your information a copy of a paper prepared by the EEC Shipbuilders' Linking Committee which sets out the views of the Linking Committee on the Commission's Communication. This paper was presented by the Linking Committee to EEC Commissioner Viscount Davignon on 10 January, 1978 at a meeting held at his invitation to discuss the Communication.

The answers to the specific questions in your letter are as follows:

- (i) British Shipbuilders were not formally consulted by the Commission in the preparation of its proposals. Commissioner Davignon did hold a meeting with the Linking Committee of EEC Shipbuilders on 20 October 1977 at which there was general discussion on EEC policy. This was before the Commission's proposals were published. There was also the meeting referred to above on 10 January when the Linking Committee presented their views on the proposals. Viscount Davignon also had a short informal discussion on general matters with the Chairman and other Board members of British Shipbuilders when he was in London on 10 November 1977.
- (ii) We agree in broad terms with the Commission's analysis of the causes of the serious world-wide imbalance between production capacity and demand. But detailed criticisms of certain points in this analysis are set out in the Linking Committee's paper.
- (iii) We do not consider the measures suggested in the Communication are
&
(iv) in any way adequate to meet the current crisis. In particular they will not have any effect on the immediate problem of providing orders in the short term.

- (v) These questions are currently being examined in the course of
&
(vi) preparing British Shipbuilders' first corporate plan which has
to be submitted this year to the Secretary of State as required
under Section 7 of the Aircraft and Shipbuilding Industries Act 1977.
In general, however, there has been considerable rationalisation
of merchant shipyards in Britain in recent years and several yards
have carried out major schemes of modernisation.

Please let me know if there is any further way we can assist you in
your consideration of the Commission's proposals. We do not consider any of
the information in this letter or the enclosure to be confidential.

Yours sincerely,

A. McDonald.

REPLY RECEIVED FROM THE CHAMBRE SYNDICALE DES CONSTRUCTEURS DE
NAVIRES ET DE MACHINES MARINES.

I. Consultation by the Commission

The 'Chambre Syndicale' and the other national associations in the EEC are members of the Shipbuilders' Linking Committee. The latter had unofficial contact with the Directorate-General for Industry in the preparation of the proposals.

After this text was submitted to the Council the representatives of the Linking Committee were received by Commissioner Davignon.

II. Analysis of the crisis

We agree with the Commission's analysis of the causes of the crisis. We regret, however, that attention was not drawn to the special responsibility of Japan for present overcapacity. Between 1968 and 1973 Japan carried out massive investment despite warnings from EEC shipyards which, in the same period, increased their production only very moderately.

It must also be pointed out that the EEC's competitors are now offering prices on the international market 30 to 40% below 1974 prices. These competitors are :

- shipbuilders in socialist countries in which the relationship between selling price and cost price defies economic analysis,
- shipbuilders in developing countries in which rates of pay bear no relation to those of European shipbuilders,
- Japanese shipbuilders who, belonging to large groups, enjoy extremely favourable supply arrangements and economic and financial support (the only Japanese shipyards in difficulty are the smaller ones which do not belong to the big groups).

Furthermore, the Japanese government has, until only recently, succeeded in undervaluing the yen; this has enabled its shipyards to keep exports at a practically constant level.

III. Measures envisaged by the EEC

The policy to be implemented must supplement the measures put forward in the Fourth Directive to enable European shipyards to overcome the crisis and to obtain enough orders to maintain a reasonable level of activity.

The structural improvement programme for the EEC shipbuilding industry must therefore be drawn up on the basis of medium-term forecasts, not in the light of probable activity in the next few years.

The Commission, however, seems to have failed to distinguish between level of activity and level of production. Thus, the objective of 2.4 million cgrt, as forecast in the communication to the Council, was calculated on the basis of foreseeable requirements as assessed by experts at the beginning of 1976; these forecasts in fact turned out to be lower than the actual orders received in the last two years.

On the other hand, we agree with the position adopted by the European Parliament which, in considering the Fourth Directive, emphasized the need to define a maritime policy.

We believe that the fleet of the EEC countries should be commensurate with the industrial and commercial importance of the Nine and the transport requirements it implies.

Our shipbuilding capacity should be estimated with reference to the tonnage of the fleet required. This does not mean that European yards should build all the vessels needed for Community shipping but a balance should be established between sales and purchases of ships - imports of ordinary ships and exports of the most complex types of ship, as indeed was the practice in France before the crisis.

IV. Assessment of funds required

Compared to the figure put forward by the yards themselves (75,000 jobs) 30,000 jobs in related industries represent less than half the amount required. It must be borne in mind that shipbuilding is an industry which creates more jobs in sub-contracting enterprises than in the shipyards themselves.

Moreover, a large number of these sub-contractors are located in the same job catchment areas as the yards and will therefore suffer directly from the slowdown in shipbuilding activity, particularly as the disappearance of jobs in the yards, primarily as a result of natural wastage, will have an immediate impact on the economic activity of the region.

While the estimate in units of account of the amount to be spent on creating new jobs, in order to offset the disappearance of jobs in the shipyards, is adequate, the overall assessment of expenditure seems to us too conservative in the light of the observations made concerning the situation in the related industries, i.e. the number of people really affected.

The financial outlay which the enterprises would be asked to make would be intolerable given the low level of prices fixed under contracts entered into since the beginning of the crisis and the increase in cost prices as a result of the slowdown in activity (not to mention the financial burden resulting from the early retirement of staff which has been necessary in certain yards in recent months and is now being envisaged in others in the coming months).

The participation of the Community, through the Social Fund, the Regional Fund and the EIB, constitutes a positive element in the Commission's proposal. Details of such participation, which no doubt will still not be enough, must also be given, as regards for example the conditions to which loans are subject and the possibility of interest subsidies being granted.

The problem of distribution between the Member States should be the subject of a general investigation in the light of a study of restructuring and reconversion projects and investment expenditure.

V. Restructuring and conversion

The Commission does not seem to be sufficiently aware of the difficulties of conversion, in particular those involved in creating new activities within the shipyards.

These difficulties would be all the more serious as the economic recession is also affecting other sectors technologically close to shipbuilding. If jobs are to be created in entirely new sectors it must also be possible for new markets to be found.

Attempts at conversion made in France between 1960 and 1965 have shown that such operations have a limited impact and take a long time to have an effect.

VI. Technological developments in design and construction

Generally speaking, the equipment used in European, and in particular French shipyards, does not lag behind that used by their most advanced competitors. It will be necessary, however, in the next few years for the shipyards to receive adequate financial aid to enable them to carry out any technological modifications which may prove necessary and to perfect some of their equipment.

Reply received from Yarrow (Shipbuilders) Limited

Dear Sir,

With reference to your letter dated 14 February, 1978 we have pleasure in replying as requested:-

- 1) Yarrow (Shipbuilders) Limited largely falls within the category of naval shipbuilder, so the analysis and policy are not fully relevant. This is actually stated on page 9 (footnote) of the communication from the Commission to the Council on the reorganisation of the Community Shipbuilding Industry.
- 2) You may find the following comments on your questions of assistance:-
 - (i) No, our Company was not consulted.
 - (ii) Yes, but not with respect to Yarrow (Shipbuilders) Limited.
(see footnote referred to above).
 - (iii) Yes, but again not with respect to Yarrow (Shipbuilders) Limited.
(see footnote referred to above).
 - (iv) The funding estimates are based on a suggested reduction in manning from a current level of 165,000 to a level of 90,000 in 5 years time. The total currently employed in the UK (extracted from the British Shipbuilders' "Review of Affairs") is 63,000 directly involved in shipbuilding, plus a further 22,000 in ship repair, slow speed marine diesel manufacture and ancilliary shipbuilding activities. These figures do not include indirect subcontractors. It would thus appear that the UK employs over 50% of the EEC total, which is doubtful, in view of the fact that the UK built only 15% of the 1975 EEC total. This would appear to throw some doubt on the magnitude of funding required. It may well be that the two sets of figures are not based on the same parameters in which case the above comment is invalidated.

- (v) Our expenditure is towards the improvement of our current capability and extension into the manufacture of GRP vessels. It does not entail restructuring or conversion in the sense given in the Working Document.
- (vi) We have a continuing policy of review and development of our design and construction technology which enables us to remain competitive. The constraints of UK and overseas governmental requirements impose controls on the extent to which new technology can be introduced and also the speed of introduction.

We trust the above is helpful to you in completing your report.

Yours faithfully,
for YARROW (SHIPBUILDERS) LIMITED.

(sgd) R.W.S. Easton
Managing Director

Reply received from the Holland Shipbuilding Association

Dear Sir,

This is to acknowledge the receipt of and thank you for your letter dated April 25, 1978 with the enclosed Document 471/77.

For your guidance we would draw your attention to the H.S.A. brochure, attached hereto, describing the five medium sized shipyards of our Association and their building capacities.

To the subsequent questions, put forward in your letter, we have pleasure in furnishing you with our comments as follows:

- (i) We have not been consulted.
- (ii) We agree to the Commission's basic analysis. However, to our view, an important factor should be added, namely that for a number of countries of the Community, the fall of the US dollar and Pound Sterling have worsened the already deplorable situation.
- (iii) We agree to the objectives laid down in the Document. The Commission's policy instruments need, in our view, to be clarified before they can be judged on their effectiveness.
- (iv) We do not consider ourselves sufficiently qualified to judge.
- (v) For the yards of our Association approximately Hfl. 100,000,000,-- will have to be raised in order to achieve the envisaged restructuring.
- (vi) Our yards are situated in the Netherlands where the total cost of a man-hour to the employer is high and will remain high unless a complete economical breakdown would occur.
In the context of the sizes of ships (small to medium) that can be built we are to aim at:
 - (a) design and construction of (very) special and sophisticated vessels in order to reduce the scope of the competition and

ANNEX IV.

- (b) streamlining design and production methods. Optimal use of modules (blocs) complete with outfit and rationalisation of the building process in order to reduce the number of man-hours. The measures "in concreto" do differ from yard to yard and as matters stand today we are not in a position to give a reasonably accurate estimate of the costs that will be involved.

We hope that our replies will be of some assistance to you.

Yours faithfully,

HOLLAND SHIPBUILDING ASSOCIATION U.A.

Encl. HSA brochure

OPINION OF THE COMMITTEE ON SOCIAL AFFAIRS, EMPLOYMENT AND EDUCATION

Draftsman : Mr M. A. VANDEWIELE

On 24 January 1978 the Committee on Social Affairs, Employment and Education appointed Mr VANDEWIELE draftsman.

The committee considered the draft opinion at its meetings of 18 and 25 April 1978 and adopted it unanimously at the latter meeting.

Present: Mrs Dunwoody, acting chairman; Mr Pistillo, vice-chairman; Mr Vandewiele, draftsman; Mr Albers, Mr Bertrand, Mr Cunningham, Mr Delmotte, Mr De Keersmaker (deputizing for Mr Wawrzik), Mr Dinesen, Mr Dondelinger, Mrs Kellett-Bowman, Mr Lezzi, Mr Santer and Mr Vanvelthoven.

I. INTRODUCTORY REMARKS

The Communication from the Commission to the Council on the reorganization of the Community shipbuilding industry was prompted by the existing imbalance between production capacity and demand.

A few figures reveal the serious implications of the crisis for employment in this sector. Whereas annual production between 1974 and 1976 stood at around 33,000,000 grt, it has since fallen to 13,000,000 grt. At the same time, the Community's share of the world fleet has dropped from over 25% in 1970 to approximately 20% in 1976.

This has led at national level to the abolition of overtime, the reduction of working hours and the dismissal of workers. Aid is being supplied in various forms and this can be expected to increase in the coming years if employment in the yards is to be maintained, since everything points to a further drop in orders right into the 1980s.

At international level there has been an OECD agreement aimed at the reduction, in an appropriate manner, of production capacity and affirming the principle of fair competition.

As for the Community, successive directives have been issued coordinating aids to shipbuilding¹. In addition, in regions with a high concentration of shipbuilding the Regional Fund has taken action in the form of investment aiming to create or preserve over 30,000 jobs. On the other hand, intervention in this sector by the Social Fund has been modest; it should be noted, for instance, that the Council has not approved the Commission's proposal for applying Article 4 of the decision on the uses of the Social Fund to benefit workers in the shipbuilding industry.

II. THE COMMUNICATION

Against this background, the Commission now proposes to reorganize the Community's yards to enable them to remain competitive in the world market. This will however mean that the present level of employment (165,000 persons) can no longer be maintained.

In this context, the Commission believes two main measures to be necessary: the retraining of workers within the yards and redeployment outside the industry.

The number of workers within the yards who would be affected by reorganization is estimated at approximately 75,000, to which must be added those workers employed in supply industries, estimated by the Commission at as many as 30,000.

¹ The most recent of these is Directive 78/338/EEC; OJ No. L 98, 11.4.1978, p.19.

In addition to the proposed coordinated State actions, loans, intervention by the European Investment Bank and Community loans, a coherent system of social measures will obviously be required as well to deal with this situation.

Since the Social Fund's resources are far too limited at present to provide an effective solution to the social problems within the yards, other funds must be found. The Commission itself proposes that the social problems caused by the crisis itself and the consequences of the Community programme should be studied in depth and the necessary social measures drafted in cooperation between the Community institutions and with the help of those concerned.

Having regard to these considerations, the Commission requests the Council to adopt a resolution requiring that production capacities for new ships be fixed with reference to the market situation. The resulting unemployment in the sector must be solved by the creation, where possible, of new jobs and by a series of supplementary social measures.

III. OTHER ACTIONS

On 2 March 1978 a Tripartite Conference was held between representatives of the Commission, the employers and the European Metalworkers' Federation.¹

Mr DAVIGNON, Member of the Commission, explained to the conference that the implementation of the Commission's scheme would entail the loss of at least 90,000 jobs. Mr VREDELING, Vice-President of the Commission, speaking about the social aspects of the plan, said that the Commission intended to solve the social and employment problems by coordinated application of the Social Fund, the Regional Fund, loans from the EIB, the use of a proportion of the appropriations for industries undergoing conversion, and by application by analogy of Article 56 of the ECSC Treaty on facilitating the financing of programmes for the creation of new employment opportunities. In addition, supplementary measures of a social nature would be taken within the shipbuilding sector.

The employees' representatives had expressed the view before the conference that the Commission's production forecasts for the coming years were unduly pessimistic. However, at the conference itself, the employees' representatives expressed general support for the Commission's ideas, and also proposed that a small working party be set up composed of representatives from the three partners to examine more closely the implications of the proposed reorganization measures for employment and to make a general analysis of the situation.

Since the employers' representatives were unable to agree to this proposal, the Commission proposed that it should take new initiatives in the near future.

¹ See Annexes I and II to this opinion

IV. CONCLUSION

The Committee on Social Affairs, Employment and Education, expressing surprise at being merely asked for an opinion on a matter which had such enormous implications for employment, whereas it should, in fact, have been the committee responsible, requests the Committee on Economic and Monetary Affairs to incorporate the following critical remarks and concrete proposals into its motion for a resolution:

1. Welcomes the fact that the Commission, in its Communication on the reorganization of the Community shipbuilding industry, devotes a comparatively large amount of attention to the social aspects and, not least, the employment aspects;
2. Regrets, however, that, the Commission's only response to the major challenge which the disastrous effects on employment represent is to put forward general proposals for the retraining and redeployment of workers;
3. Expects that the Commission - having regard to the all too limited resources at the Social Fund's disposal for dealing with problems of such magnitude, not least considering that other sectors, such as the textiles industry, are struggling with similar problems - will immediately start drawing up more concrete and effective proposals than the present ones;
4. Does not consider the proposed facilities for alternative employment particularly realistic either, since the yards are mainly situated in disadvantaged regions of the Community, where there is already a high level of unemployment;
5. Believes in this connection that much better statistical data will be needed than that provided by the Commission in order to ascertain the age distribution and qualifications of those affected, with a view to determining realistically the possibilities for the premature retirement of workers and their retraining;
6. Believes, also, that in order to assess the practical possibilities for effective action, statistical data must be collected on the consequences of the proposed reorganization for subcontractors supplying the shipbuilding industry and on the chances of creating new jobs within the ship repair industry.
7. Proposes that consideration should be given to the possibility of concluding readaptation agreements for workers in the shipbuilding industry, by analogy with the provisions of the ECSC Treaty. This would make possible, inter alia:
 - the payment of tideover allowances so that unemployed workers could retain their full wage while waiting for a new job;
 - the payment of allowances to compensate workers for loss of wages, to cover removal expenses, training and retraining costs and to facilitate early retirement.

Mr VREDELING'S SPEECH
AT THE TRIPARTITE CONFERENCE ON SHIPBUILDING

Brussels, 2 March 1978

}

2 March 1978

MR VREDELING'S SPEECH AT THE TRIPARTITE CONFERENCE ON SHIPBUILDING
BRUSSELS, 2 MARCH 1978

EMPLOYMENT

The Commission is aware that the crisis which affects the sector and which may increase in extent in future years has serious consequences on employment. The number of shipyard workers has dropped by almost 10% in the last two years, although a number of companies have cut out virtually all overtime, reduced working hours, encouraged employees to leave and cut recruitment to the bare minimum.

The Member States too have taken various measures to support their shipyards. Although these national measures take different forms, they are mainly directed towards keeping employment at the highest possible level.

In its Communication to the Council the Commission considers that an effective restructuring operation in the shipbuilding sector could affect approximately 75,000 jobs, 15,000 of which would be vacated by natural wastage. This rough calculation does not however take account of per capita productivity increasing so much that the estimated number of workers affected will probably be higher.

The effects on unemployment, the crisis affecting the sector and the reorganization measures to be taken must be quantified more clearly. The possible medium-term revival and its effects on employment must be included. When taking the accompanying social measures, this possible revival must also be taken into consideration, though this should not serve as an excuse to neglect the grave short-term employment problem.

SOCIAL MEASURES

Once the objective of reorganization has been defined for the industry, the consequences for employment must be recognized; these will be of two kinds:

- (a) workers will have to be retrained within the sector (internal conversion as part of the qualitative adaptation of production facilities);
- (b) workers losing their job in the sector will have to be given help. Means will have to be implemented to create jobs outside shipbuilding, accompanied by social measures on behalf of the workers affected.

SUMMARY OF EXISTING MEASURES

EUROPEAN REGIONAL DEVELOPMENT FUND

Since its establishment, the Fund has backed 225 projects in shipbuilding areas, thus helping create more than 34,000 jobs. However, it is very difficult to give an accurate assessment of the role played by the Regional Fund in creating new jobs outside the shipbuilding sector and gain a clear picture of the real stimulating effect of the Fund on the redeployment of workers leaving the sector. It is however obvious that not only must the Fund continue to take action but also that this action must be considerably expanded in shipbuilding areas.

Hitherto, the main aim of the Fund has been to supplement the aid to national regional policy. However, the Commission is now proposing that the Fund be split; one part (580 million EUA in 1978) would continue to be allocated to the Fund's traditional objective, while a 'non-quota' part (100 million EUA in 1978) would be allocated to specific Community measures in certain regions. Although no final decision has been taken on the matter, it may be expected that, with Council approval, the funds granted could be allocated to regions where shipyards are concentrated.

As regards aid to the reorganization of the shipbuilding sector, assistance resulting in a reduction in the number of jobs in the sector should, as far as possible, be granted only if alternative employment is provided or if other measures are agreed to absorb the redundant workers.

AID TO ECONOMIC RECOVERY

The Commission has just received Council approval for a very substantial credit facility enabling the Community to contribute to projects which have a stimulating effect on economic recovery. It will be possible in the foreseeable future to finance investments in growth sectors yet to be specified.

The task of the Commission, perhaps in collaboration with the European Investment Bank, is to draw up policy guidelines. An attempt will obviously be made to adjust these new Community financing facilities as far as possible with the requirements of those sectors with structural difficulties.

THE EUROPEAN SOCIAL FUND

The European Social Fund may grant aid for the following purposes :

- (i) facilitating the training of persons who need to acquire, widen, adapt or improve their professional knowledge and ability;

(ii) facilitating the transfer of those persons, together with their families, who are obliged to change their place of residence in order to pursue a professional or trade activity and in their integration into the new social and working environment;

(iii) eliminating obstacles which make it difficult for certain categories of disadvantaged workers to take up available employment (older and handicapped workers);

The Fund can also grant aid in accordance with the requirements of:

(iv) maintaining, for a fixed period, the income of persons who have lost their jobs or whose activities have been reduced or suspended, and who are awaiting training or employment;

(v) helping to inform and guide persons seeking employment or re-employment;

(vi) promoting better working conditions in less developed areas.

In October 1973 the Commission sent the Council a proposal on making the provisions of the Fund applicable, on the basis of a special decision, to shipyard workers directly affected by qualitative and quantitative reorganization measures taken in the sector.

This proposal was in line with the policy then pursued by the Commission as regards the ESF, and followed similar proposals concerning agriculture and the textile and clothing industry. However, so many sectors have now run into difficulties that it is no longer possible to take a special decision in all these cases on the basis of the relevant Article of the ESF (Article 4) without running the risk of robbing this Article, directed towards specific Community measures, of all its significance. Although the shipbuilding proposal pending before the Council has not been withdrawn, the Commission is now trying to use new and different possibilities in the existing provisions of the ESF and the interpretation thereof which enable it to take consistent social measures to support the sectors with structural difficulties.

NEW MEASURES

The ever-increasing number of sectors with structural difficulties and the specific employment problems they cause force the Commission to consider constantly the desirability of taking supporting social measures.

I should like to look at some of them here with you, bearing in mind that some of the measures are still only ideas; none has yet been put into effect in any way.

1. I no longer need to describe to you the problem of youth unemployment. Taking a Communication from the Commission as its basis, the Council asked

the Commission on 28 October to take specific steps to encourage the employment of young workers as part of the opportunities provided for by the ESF.

The Commission has drawn up proposals aimed at granting assistance in those cases where Community aid is a priority requirement. Consideration is being given to the possibility of granting a recruitment bonus to companies to encourage them to recruit young persons in search of work. An attempt will also be made to assist projects employing young unemployed persons for activities or services of general benefit (social services, ecology, environment, health, education).

2. The type of problem affecting the shipbuilding sector for instance is very reminiscent of the difficulties facing the coal sector a few years ago. The conclusion of adjustment agreements, in collaboration with the national authorities, could thus be considered for shipyard workers by analogy with the provisions of the ECSC Treaty. The following measures could be considered, in line with the provisions of Article 56 of the ECSC Treaty:

- (a) payments allowing unemployed workers to wait for another job while still receiving full salary;
- (b) payments encouraging the worker to accept another, lower-paid occupation (wage compensation);
- (c) payment of removal and installation costs;
- (d) financing of training and retraining costs;
- (e) payments for early retirement (to which I shall return).

Although no final decision has been taken on this matter, I should add that the Commission is considering, under certain conditions and in certain circumstances, helping to finance measures to reduce working hours and thus prevent dismissals.

3. The age structure of workers in the shipbuilding sector and the large number of workers over forty suggest that redeployment will raise very considerable problems. Early retirement could thus conceivably be a solution. In some countries there are already legal provisions or contractual agreements to this effect and measures of this type are in preparation in other countries.

It would in my opinion be desirable to collect more information about the national measures being prepared and gain more precise information about the actual age structure of workers in this sector. Only then will the Commission be able to judge whether, and to what extent, a Community contribution is possible or desirable and what Community guidelines it should follow.

4. I hold the view that there must be close consultations with you to examine - for the sector as a whole or for specific regions - the extent to which any redistribution of working hours can ease the employment problem to a certain degree, if not solve it. The 'large-scale' tripartite conference will deal with this subject in greater detail. Attention must be paid to increasing the number of holidays and reducing the working week in the case of shift working.

The Commission is prepared to conduct the necessary studies and investigations, together with the employee and employer representatives, to gain greater insight into the actual implications of consequences of the principles of worksharing. No decision will be taken until all aspects of the problem are known.

5. Finally, let me point out that the statistics reveal that the amount of overtime in the sector is fairly substantial and that a reduction could be considered.

CONCLUSION

My intention has been to make it clear that we have a number of instruments at Community level which could play a stimulating role when drawing up a social policy for workers affected by the structural difficulties of the sector in which they work. The Commission is aware that these measures are not sufficient and that the link between various forms of aid is not always perfect. The Commission is therefore aiming at improving coordination between the various Funds and at the same time extending existing measures or supplementing them with new ones. In this connection, I can inform you that the Commission recently decided to ask the Council to allocate funds from the budget to finance supporting social measures for workers employed in crisis sectors.

This is the second time that both sides of the shipbuilding industry and the Commission have had direct contact in a joint meeting. I am convinced that this is the beginning of a permanent dialogue between us. I am moreover personally convinced that this ongoing consultation is absolutely necessary and a condition for tackling the sector's difficulties in full knowledge of the facts.

However, I hope that we shall not have to confine ourselves in future to the crisis in shipbuilding. The work in that industry is hard and often unhealthy or done in arduous conditions; all sorts of problems arise in connection with hygiene, safety and health. Humanization of shipyard work is undoubtedly one of our urgent tasks and, when looking for social measures to cushion the adverse effects of the crisis, we must consider improving the working conditions of employees in the sector.

A I D E M E M O I R E

Shipbuilding - Meeting on 2 March 1978 in
Brussels between representatives of the EMF,
the Linking Committee and the Commission

1. The meeting, organized by the Commission, was chaired by Mr Peel, Director in DG V, and was attended by Mr Davignon, Member of the Commission, and Mr Vredeling, Vice-President of the Commission. It followed on from the meeting of 19 October 1977, at which it was agreed that tripartite, or even bilateral, contacts would be organized to inform both sides of the industry of the Commission's intentions.

2. Introduction by Mr Davignon

In his introductory remarks Mr Davignon evoked the crisis faced by this sector, with its sudden and severe drop in orders and substantial decline in activity, a crisis which was not only cyclical but also structural.

The problem could not be solved without courageous action. This would have to be at Community level, both to tackle the problem as a whole and to deal with its component features: it should not be thought that individual and uncoordinated measures at national level could produce better results than coherent action at Community level. Likewise, Community action in respect of non-Community countries, particularly Japan, could have the desired effects only on the basis of a coherent policy within the Community. As part of the qualitative and quantitative adaptation of production capacities, the Community would have to be capable of indicating the overall capacity which was economically, socially and politically viable.

As for the components of the action proposed by the Commission, Mr Davignon stressed the need to coordinate national aids and to make sure that they were compatible with the Community target, and recalled the proposals aimed at raising funds for shipbuilding.

The Commission also took the view that action in respect of the shipbuilding sector would have to take account of related problems. Obviously, the interests of shipowners and shipbuilders were not identical and it would not do to transfer the problems of one sector to the other. However, it would be necessary to strengthen the competitive position of the shipowners by a more vigorous pursuit of the struggle against unfair competition (sub-standard ships, unacceptable working conditions, etc.).

The shipbuilding sector would continue to present problems and they would have to be solved step by step, which meant a constant search for a consensus among all the parties involved.

In conclusion, today's topics of discussion could focus upon the following questions:

Was there a common view of the need for a Community approach in this sector? Was it opportune to arrive at a joint diagnosis of the crisis allowing a worthwhile discussion to be held on the measures which should be taken?

3. Mr Vredeling described the social and employment situation in the ship-building sector (his speech in extenso is appended hereto). He said that despite shorter working hours, the elimination of overtime, the encouragement of early retirement and restrictions on hiring new personnel, employment had declined by 10% in the shipyards. National interventions were insufficient to arrest the deterioration of the employment situation. The measures intended to put the shipbuilding sector back on its feet should be accompanied by social measures such as the retraining of a certain number of workers - since modernization was one of the normal consequences of such measures - and the creation of new jobs for those who would have to leave the sector. The Regional Fund and the Social Fund could help, but new measures could also be envisaged, particularly for young people out of work and waiting for a new job.

Mr Köpke, speaking for the workers, said he agreed with Mr Davignon and Mr Vredeling, but would like to put the following questions to the Commission:

1. Was the Commission not being too pessimistic in its estimates of the Community's future shipping needs?
2. Was there no way of inducing European shipowners to speed up replacement of their vessels?
3. Was there any way of inducing European shipowners to order their vessels by preference from European shipyards?
4. Would it be possible to achieve greater voluntary self-restraint by holding further talks with the Japanese Government?
5. When measures to put the shipbuilding sector on a sound economic footing were taken, could this not be done in a well-ordered fashion, avoiding redundancies?

Mr Köpke said that, in the opinion of the EMF, the present 20% share held by Community shipyards in world shipbuilding output was a minimum below which shipbuilding would no longer be competitive. Capacities should not be adapted to the demand in 1980; demand should be encouraged and the general economic situation improved with a view to full employment. These general measures should be accompanied by specific measures for the sector (minimum conditions for crews, new technologies, etc.).

The Commission's estimates, he said, were too pessimistic and it was necessary to maintain existing capacities as much as possible, since they would be needed after 1980.

Mr Davignon replied that it was not possible to envisage the reorganization of a sector without loss of jobs. This was why it was necessary to consider the creation of new jobs, at the same time, an aim which would be difficult to achieve. The Commission's diagnosis did not support the view that one should wait until 1980 before taking action, but as soon as the wish for a common policy became apparent, it was necessary to be able to have a frank discussion on all aspects of the problem. Mr Davignon said that the figure of 2.4 million cgrt which had been mentioned in no way reflected the target envisaged by the Commission, but that this figure threatened to become a reality if nothing were done with the help of the social partners.

In conclusion he repeated that the success of Community action at the international level depended on having an internal Community policy.

Mr Vredeling supported Mr Davignon's statement that it was impossible to reorganize a sector without closing down undertakings. The Commission's aim - obviously - was to avoid redundancies by a series of measures of limited duration intended to create new jobs. As for matters of unfair competition and harmonization of working conditions, the Commission was dealing with these matters at present.

4. Setting up of working parties

Mr Köpke proposed two working parties: one to study the range of social measures and employment policy (DG V), the other the measures related to industrial policy and forecasts (DG III).

This proposal did not meet with the immediate assent of the representatives of the Linking Committee, who said they wished to refer to their principles in view of the political aspects of this matter.

Mr Lambotte, speaking for Mr Davignon, pointed out that there was no question of taking decisions in these working parties, but that it was indispensable - in drafting a policy - to arrive at an agreed diagnosis of the situation and to make a medium-term projection of the situation.

Mr Vredeling and Mr Peel also confirmed that these working parties should assemble all the facts known to both sides of the industry for the benefit of the industry itself without taking political decisions.

5. In conclusion, the Commission would draft within a week a paper which would spell out the part to be played by these working parties, and the parties concerned would notify their reactions as soon as possible after consulting their affiliated organizations.

Annex: attendance list

ATTENDANCE LIST

Representatives of the EMF

Mr Köpke

Mr Bengt, Mr Byl, Mr Casserini, Mrs Crins, Mr D'Avanzo, Mr Fall, Mr Guiheneuf,
Mr Halvorsen, Mr Honkavaara, Mr Huc, Mr Katajisto, Mr Lapeyre, Mr Maestre,
Mr Møller, Mr Niven, Mr Paulsen, Mr Philipsen, Mr Pitz, Mr Rijkse,
Mr Saint Aubach, Mr Sartori, Mr Samson, Mr Stig, Mr Thierron, Mr Tracey,
Mr Vandenbussche, Mr Vanherbruggen, Mr von Steeg, Mr Verury

Representatives of the Linking Committee

Mr Conrad, Mr Vanhuffel, Mr de Mas Latrie, Mr De Vries Leutsch, Mr Engell
Jensen, Mr Fante, Mr Griffin, Mr Lambert, Mr Mc Donald, Mr Meghan,
Mr Notarbartolo, Mr Silvestrini, Mr Smit, Mr Van Der Puil

Representatives of the Commission of the European Communities

Members of the Commission

Mr Davignon, Mr Vredeling

Mr Lambotte (Mr Davignon's Office), Mr Hustinx (Mr Vredeling's Office)

Directorate-General III

Mr Verdiani, Mr De Jonge, Mr Pellegrino

Directorate-General IV

Mr Watershoot

Directorate-General V

Mr Peel, Chairman of the meeting

Mr Wallyn, Mr Goss, Mr Mawson, Mrs Coulon, Mr Lavery

Directorate-General XVI

Mr Watson

Task force - financial means

Mr Bianconi

OPINION of the COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING AND TRANSPORT

Draftsman: Mr A DAMSEAUX

On 31 January 1978 the Committee on Regional Policy, Regional Planning and Transport appointed Mr Damseaux draftsman.

It considered the draft opinion at its meetings of 29 March and 24 May 1978 and adopted it unanimously.

Present: Lord Bruce of Donington, chairman; Mr McDonald, vice-chairman; Mr Damseaux, draftsman; Mr Brosnan, Mr Fitch, Mr Hoffmann, Mr Hughes, Mr Ibruqger, Mr Noè, Mr Schyns.

I. INTRODUCTION

1. The communication from the Commission to the Council on the reorganization of the Community shipbuilding industry reviews the causes, characteristics and consequences of the present crisis in European shipbuilding and on this basis puts forward proposals for a general programme for restructuring and increasing the profitability of the Community's shipyards.
2. The Commission's programme of reorganization will affect two areas falling within your committee's terms of reference, namely regional policy and transport. In other words, reorganization in the shipbuilding sector will inevitably have implications as regards both regional policy and sea transport.

An incidental point to be noted is that the Committee on Regional Policy, Regional Planning and Transport has never before been consulted on proposals for Community action in the shipbuilding sector. This is highly regrettable in view of the obvious connection between shipbuilding and regional and transport policy. So far your committee has only once had the opportunity to make its views on the subject known, this being in the own-initiative report drawn up by Mr Seefeld on sea transport problems in the Community (Doc. 5/77).

3. For this reason it would doubtless be desirable to provide committee members with a brief description of the present situation in the industry concerned before examining in more detail the repercussions which the proposed reorganization programme will have on regional policy and sea transport.

II. COMMENTS ON THE PRESENT SITUATION IN THE COMMUNITY SHIPBUILDING INDUSTRY

4. The crisis now facing the shipbuilding sector, particularly in the Community, is so serious that the very survival of Community shipyards could justifiably be said to be at stake. The present difficulties are twofold. On the one hand, a large discrepancy has arisen, mainly as a result of the oil crisis, between capacity supply and demand, particularly in the tanker sector, where surplus tonnage is considerable. On the other, the Community's shipyards face a steady and continuing decline in their share of world production.

The data assembled by the Commission¹ show that world production of bulk carriers rose from 7.9 million gross registered tons (grt) in 1960 to a record 34.8 million grt in 1975. In contrast with the enormous capacity available, demand has been falling since 1975. In that year orders amounted to 13 million grt. The world shipbuilding industry is thus faced with considerable overcapacity which, as mentioned above, is making itself most acutely felt in the tanker sector (more than 66% of total deliveries in 1975 were oil tankers).

¹ For more details see pages 1 to 6 and Annex I of the Commission's communication (Doc. 471/77) and the 1976 communication on shipbuilding (Doc.COM(76) 224 final)

During the same period (1960-1975) the share of Community shipyards in the world market fell by more than 50% to less than a quarter of annual world production (from 51.1% to 23.3% of total annual launchings). Japanese ship production showed exactly the opposite trend between 1960 and 1975, when its share in annual world launchings rose from 21.4 to 50.6%.

5. According to figures recently published in Lloyds Register of Shipping, the situation on the shipbuilding market in 1977 was as follows: overall production amounted to 27.53 million grt, i.e. about 25% less than in the previous year; out of this total, Japan accounted for 11.71 million grt; by comparison, the Federal Republic of Germany accounted for 1.60 million grt, France for 1.11, the United Kingdom for 1.02, Italy for 0.78 and Denmark for 0.71.

On 1 January 1978 world orders still amounted to only 36.73 million grt, i.e. little more than a quarter of the record 133.44 million grt reached in March 1974. Orders placed in 1977 amounted to 11 million grt, i.e., about 2 million grt lower than in 1976 and a long way below the record 62 million grt for 1973. At the beginning of this year world orders were distributed among the major shipbuilding countries as follows: Japan 9.91 million grt, United States, 3.60 Brasil 2.92, United Kingdom 2.20, Sweden 2.09, France 2.05, the Federal Republic of Germany 1.12 and Italy 0.92.

6. Moreover, the future of the European shipbuilding industry looks far from rosy. The available forecasts, which must naturally be treated with a degree of caution, show that the shipbuilding market cannot be expected to recover until after 1984, and even then only slowly. Assuming an annual 4% growth in gross domestic product (GDP), world production of merchant ships has been estimated at 11.8 million cgrt¹ for 1980 and 20.2 million cgrt for 1985. Although the future implications of surplus production capacity in the shipyards are difficult to assess, the Commission estimates that in the second half of this decade overcapacity will be running at 40% in the industry as a whole and almost 60% in the tanker sector.

1

The cgrt or 'compensated gross registered ton' is the unit used by the OECD to take account of the number of hours of work required to build a ship. This, of course, varies depending on the type and size of vessel. cgrt are the same as grt for standard bulk carriers of more than 5000 dwt.

There is a danger that Japanese shipyards, which already cover about half the world requirements for new tonnage, will press ahead with their offensive by switching over from giant tankers to the construction of specialized ships (for example, methane carriers), a sector in which the Community's yards have so far held a relatively strong competitive position. The participation of new shipbuilding countries, for example Brazil and South Korea, in the world markets will very probably also contribute to a further reduction of the Community's share in annual world production.

7. The government measures adopted in favour of shipyards in recent years by virtually all the shipbuilding nations also provide a very clear illustration of the gravity of the crisis in shipbuilding. In an effort to ensure the survival of their labour-intensive shipbuilding industries, most governments have resorted to various subsidy arrangements which, with the worsening crisis, have become more significant and extensive. Government intervention for shipbuilding is usually financial in nature and includes credit facilities, price guarantees, subsidies for new building work and investment premiums. Moreover, a number of countries have not hesitated to take unilateral protective measures. For example, under the 'Jones Act' the United States has reserved its coastal shipping for vessels built in America.

Although in principle a subsidy policy would be best avoided, the present situation in the shipbuilding industry is so critical that the abolition of all state aid would inevitably result in the closure of a large number of yards, with all the socio-economic consequences that such action would involve. In the short term, unfortunately, there is no alternative solution.

8. However, the institutions of the European Community are fully aware of the dangers of an uncontrolled subsidy policy. On 4 April 1978 the Council issued a (fourth) directive on aid to shipbuilding¹ with a view to preventing a disastrous 'aid race' and harmonizing aid provisions in the Community.

For more details on the question of subsidies to shipyards, the draftsman would therefore refer members to the above directive, to the relevant Commission proposal (Doc. 391/77) and to the report drawn up by Mr Prescott on behalf of the Committee on Economic and Monetary Affairs (Doc. 465/77).

9. However, the draftsman would nevertheless like to make two comments on the matter of financial aid. First, he would emphatically point out that ill-considered and excessive financial aid not only frequently distorts competition in the Community but will also indefinitely delay or even obstruct the necessary structural reforms for which the Commission is rightly pressing in its reorganization project. Secondly, he would ask the committee responsible

¹ OJ No L98, 11.4.1978, p.19

to investigate, in the light of the overcapacity in the shipbuilding industry throughout the world, what measures could be taken to ensure that public funds are not used to create still more surplus capacity and thus further aggravate the situation in the sea transport sector as a logical result of the effects of such surpluses on freight rates. In this connection it would undoubtedly be advisable to study ways and means of achieving an organized and socially acceptable reduction in capacity, which in the ultimate analysis would benefit both shipbuilding and sea transport. It goes without saying that a coherent subsidy policy and careful capacity reductions can only be achieved successfully on an international basis. The OECD would seem an appropriate setting for such action.

III. REGIONAL POLICY IMPLICATIONS

10. It is clear that industrial and regional policy are closely inter-related. This applies in particular to sectors such as shipbuilding, most shipyards being established in problem industrial regions characterized by high structural unemployment, antiquated infrastructure, poorly diversified industrial structures and average per capita incomes below Community or national levels.

11. The European Parliament has repeatedly called for more coordination of the various Community policies and financial instruments. For example, in the report drawn up by Mr Noè on behalf of your committee on the communication from the Commission to the Council concerning guidelines for Community regional policy (Doc. 307/77) the Commission was asked to make 'an assessment of the regional impact of all proposals for the development of Community policies' (paragraph 3 of the motion for a resolution). The Committee on Regional Policy, Regional Planning and Transport suggested that interdisciplinary study teams should be set up to assess the regional consequences of Community measures in other fields, just as it advocated the creation of regional development programmes with a view to effective coordination.

12. On the subject of specific measures for regions in which the dominant industries are characterized by a marked recession, your committee has stated (in the own-initiative report by Mr Delmotte on aspects of the Community's regional policy to be developed in the future) that it considers that 'Community action is justified when certain sectors with structural difficulties, such as the textile, coalmining, iron and steel and shipbuilding sectors etc., play a dominant role in numerous important regions'¹.

¹ Doc. 35/77, (paragraph 10 of the resolution) - OJ No C 118 of 16.5.1977, page 52)

The explanatory statement of the abovementioned report specifies that this applies to regions which were once powerhouses of growth but now face difficult problems of adaptation owing to economic obsolescence and competitive pressure which are often too onerous for the regions to cope with themselves and therefore call for Community aid.

The opinion drawn up by Mr Schyns for the Committee on Social Affairs, Employment and Education on the communication from the Commission to the Council concerning the review of the rules governing the tasks and operations of the European Social Fund,¹ put forward similar views on behalf of your committee and expressly mentioned shipbuilding as an industry which should be considered for aid in the framework of the Community's regional policy.

During its fact-finding mission to Scotland and to North-West England, a delegation from the Committee on Regional Policy, Regional Planning and Transport was able to gain a first-hand impression of how unfavourably the working and living conditions of the population were affected by the decline of a once dominant and prosperous branch of industry, in this case the Strathclyde and Merseyside shipyards².

13. In this connection, your committee was pleased to learn that between its inception (in March 1975) and the end of September 1977 the European Regional Development Fund (ERDF) 'has paid out an estimated 78.65 million u.a. in regions where there is a high concentration of shipbuilding', this sum covering '225 projects involving a total investment of 1,740 million u.a. and the creation or preservation of 34,112 jobs in France, Germany, Italy and the United Kingdom' (see page 8 of the Commission's communication).

At the committee meeting on 29 March 1978, during the initial exchange of views on the document under consideration, your chairman and draftsman asked the Commission for further information on aid from the ERDF. Annex II gives a detailed survey of ERDF intervention in favour of industrial investment projects in regions with high concentrations of shipyards. To be more precise, this survey covers the number of projects, the number of newly created or preserved jobs and the amount of ERDF aid for each individual region and for the Community as a whole during the period from March 1975 to September 1977 inclusive.

¹ PE 48.481, see report by Mr Adams (Doc. 84/77)

² See report by Mr Evans on this fact-finding mission (PE 48.483/fin)

14. The list reproduced in Annex I (also provided by the Commission) shows that during the same period direct intervention from the ERDF was used to support 17 projects (estimated total expenditure 2.52 million u.a.). The investments involved totalled 27,762,708 u.a. and made it possible to create or preserve 1,082 jobs in Denmark, the Federal Republic of Germany, France, Italy and the United Kingdom.

The fund has also provided assistance for 111 industrial infrastructure projects in the United Kingdom.

15. Although it is possible to make a precise assessment of the ERDF's contribution to the shipbuilding industry in the three years after it was created, the same unfortunately by no means applies to the Regional Fund's future contribution to the Community's shipyards.

The Commission estimates the cost of reorganizing the Community's shipbuilding industry and directly allied sectors at 4,650 million u.a. over a period of 5 years. This astronomical sum would have to be raised from three separate sources, namely: the industry itself, state funds and the financial instruments of the Community. The Community's contribution would come from the appropriations entered in the budget for industries undergoing conversion and from EIB intervention, Community borrowing, and recourse to the European Social Fund and the ERDF.

16. On the basis of the financial assessment reproduced in Annex II of the communication, this would mean in practical terms that the authorities in the Member States would have to contribute 1,750 million u.a. to the reorganization of this sector and the shipbuilding companies 2,900 million u.a. The shipbuilders could raise a proportion of these funds from the Community, either through EIB intervention or through borrowing. The national authorities could obtain assistance from the ESF and the ERDF 'in both cases within the limits of the funds'. In the case of the ERDF this means that Community aid could only be granted to shipyards in areas already receiving national regional aid. The Commission adds that the scope for intervention by the ERDF could be extended through the 'off quota' section 'if in conjunction with the Member States, it proves possible to undertake schemes specifically aimed at creating new jobs in those regions and zones where the effect of the reduction of shipyard capacity on the existing employment situation is to create a problem which has already sufficiently serious aspects' (see first paragraph on page 18 of the communication).

As the Commission points out on page 3 of Annex II, it is undoubtedly true that aid from ERDF could bolster the effect of national intervention, but it is impossible on the basis of the Commission's analysis to assess how much assistance will be needed from the ERDF and what contribution it can be

expected to make to the alleviation of the shipbuilding crisis. In the draftsman's view, the financial analysis of the regional aid to be provided by the Community is insufficiently detailed.

17. In conclusion, it should be noted that the evaluation of regional policy implications in the framing of sectoral policy is to be welcomed, as is also the emphasis placed on the coordination of the various Community financial instruments, since this will indisputably serve to make Community efforts in the regional and financial spheres very effective. In this connection, however, it is essential for the Commission to submit a more detailed financial assessment as soon as possible.

IV. SEA TRANSPORT IMPLICATIONS

18. This section first assesses the present situation in the sea transport sector and then deals with the repercussions of the Commission's proposed measures on Community shipping.

In the last two years the European Parliament has several times expressed its views on the problems of sea transport. For this reason, the draftsman feels that it would be desirable simply to summarize the general situation as regards sea transport and to provide recent data and figures on some aspects of this situation. For a detailed analysis of the problem, attention is therefore drawn to the following documents:

- Interim Report by Mr Seefeld on behalf of the Committee on Regional Policy, Regional Planning and Transport on sea transport problems in the Community (Doc. 5/77);
- Interim Report by Mr Prescott on behalf of the Committee on Economic and Monetary Affairs on the Community shipping industry (Doc. 479/76);
- Report by Mr McDonald on behalf of the Committee on Regional Policy, Regional Planning and Transport on the proposal from the Commission of the European Communities to the Council (Doc. 540/77) for a regulation concerning accession to the United Nations Convention on a code of conduct for liner conferences (Doc. 47/78); and
- Opinion by Mr Nyborg for the Committee on External Economic Relations on the report on the present state of relations between the European Community and the Eastern European state trading countries and COMECON (PE 51.342) - (rapporteur: Mr Schmidt) - (Doc. 89/78) (PE 50.003/fin.).

A. The present situation as regards sea transport

19. The energy crisis has had a dramatic effect not only on the shipbuilding industry but also on the Community's sea transport sector, which has been facing increasing difficulties.

The considerable world tonnage surplus and the resulting reduction in freight rates have combined with ever increasing competition from third countries to threaten the very existence of a large number of shipping companies in the European Community. The surplus tonnage on the world freight market has recently reached colossal proportions. At the end of 1976, for example, 881 seagoing vessels with a total carrying capacity of 45.4 million tons were laid up¹. If account is also taken of the increased numbers of ships which make slow turnarounds or sail without full cargoes, it will be obvious that freight rates have in many cases fallen below the threshold of profitability.

This situation, which is in itself disquieting, is aggravated for European shipowners by unprecedented competition from fleets which sail under flags of convenience and from ships from countries with centrally controlled economies or developing countries which understandably wish to extend their own fleets.

20. As a result of these unfavourable developments, the share in the world fleet of shipping companies established in the Community has considerably declined and will continue to do so.

In the 15 years between 1959 and 1975 the 'Community' share fell from 35.4 to 20.7%. Taking the expansion of the merchant fleet as a criterion, the growth rate of the EEC fleet over the same period amounted to 78%, i.e. less than the world average of 199% and far lower than the figures for cheap flag countries (330%) or state-trading countries (410%)².

On 1 January 1978, the world merchant fleet numbered 32,239 vessels with a total carrying capacity of 625.811 million tons. The Community's share in this total amounted to scarcely 20% (76.4 million grt).

¹ Noël McMahon, 'Energy - Implications for Transport', in Transport, September 1977, p. 367

² Communication from the Commission to the Council on the Community's relations with non-member countries in shipping matters (COM(76) 341/final). The cheap flag countries include: Liberia, Panama, Honduras, Costa Rica, Lebanon, Hong Kong, Singapore, Cyprus, Somalia and Bermuda

The following table shows the size of merchant fleets (in millions grt) in the most important maritime states in the Community, together with the position they occupy in the world league. For comparison the table also provides figures for a number of third countries with major shipping commitments (source: 'Lloyd's Register of Shipping').

EEC

United Kingdom	31.65 (million grt)	3rd (place)
France	11.61	9th
Italy	11.11	10th
Federal Republic of Germany	9.59	11th
Denmark	5.33	17th
Netherlands	5.29	18th
Belgium	1.59	29th

Cheap flag countries

Liberia ¹	79.94	1st
Panama	19.46	7th
Singapore	6.79	14th
Cyprus	2.79	22nd
Bermuda	1.75	27th

Others

Japan	40.04	2nd
Greece ²	29.52	4th
Norway	27.80	5th
Soviet Union	21.44	6th
United States	15.30	8th
Sweden	1.43	12th
Spain	7.19	13th
Poland	3.45	19th

It is clear that the relative decline in the Community's merchant fleet has not been caused by a relative slump in the industry or in external trade. Still less is it due to the structure of the fleet. Quite apart from the fact that the European fleet is one of the 'youngest' in the world, Europe's share in the production of technologically advanced or specialized bulk carriers is very high. For example, 38% of gas tankers (LNG or Liquid Natural Gas tankers) and about 43% of container ships sail under the flags of Member States of the Community.

¹ More than 1/5th (20.3%) of the entire world merchant fleet, i.e. more than the EEC's total share, is registered in Monrovia

² It should be noted that, by tonnage, about half the Greek bulk carriers (about 25 million grt) sail under foreign flags

21. On the contrary, this decline in the Community's fleets at world level is due largely to external considerations, the main factors involved being as follows: first, flag discrimination, which covers a whole range of measures designed to reserve cargoes for ships flying national flags¹ (inter alia the unilaterally imposed trade practice of fob purchasing and cif selling²); various types of financial and fiscal preferential arrangements introduced by state authorities (price calculations bearing no relationship to real costs and therefore resulting in flagrant commercial undercutting) etc. In addition to these restrictive practices, a number of countries have adopted legislation drastically curtailing and in some cases completely eliminating normal competition.

For the sake of completeness, it should be pointed out that wages and costs in western Europe, by comparison with those in the rest of the world, by their very nature work to the disadvantage of Western European shipowners and thus add to the pressure of competition from outside the Community.

22. In view of the structural overcapacity in the world fleet and the frequent failure of freight rates to cover costs, it is scarcely surprising that most Western European shipping companies are no longer able to cope with the relentless and aggressive competition from certain other fleets. With the exception of a steadily dwindling number of shipping companies which for the time being are still managing to weather the storm, the majority of owners are faced with the painful choice of either closing their businesses, (temporarily) operating at a loss, or sailing under the flags of countries where financial and fiscal burdens are smaller.

23. In the face of this dilemma, it is easy to understand why shipping companies have been turning to their governments for aid. For example, the Koninklijke Nederlandse Redersvereniging (KNRV) has published a blueprint asking for an increase in state assistance for the purchasing of sea-going vessels. In April 1978, the Verband Deutscher Reeder asked for additional financial aid, inter alia in the form of short-term loans, in order to meet an acute liquidity crisis resulting from fluctuations between the German Mark and the dollar. In Belgium the National Shipowners Association recently drew up and submitted to the Government an emergency plan pressing for state intervention as a matter of urgency. According to the chairman of the 'Comité central des armateurs de France' (C.C.A.F.) the

¹ See in this connection the oral question put by Mr Nyborg on behalf of the Group of European Progressive Democrats to the Council on shipping (Doc. 473/77)

² The systematic application of these trade policy arrangements explains to a large extent why almost three quarters of trade between the Community and the Soviet Union takes place on board Russian ships

debts of French shipowners amount to FF 12,000 million, i.e. they are the same as the turnover recorded by these shipowners in 1977¹. The above examples represent just a few of the many cries of alarm and requests for help reported in the newspapers in recent months.

24. Thus, most governments have provided financial assistance for shipowners. It would certainly be very interesting to have precise figures on the amount of state aid granted to shipping companies by central governments in the Member States in recent years. Although such figures are not available, there can be no doubt that the total amount must be very high. In this connection the draftsman would make the same comment, mutatis mutandis, as he made in connection with aid to shipyards, i.e. although financial aid represents an emergency solution, it is virtually essential, in view of the seriousness of the crisis, as a measure to prevent the decline of shipping companies in the Community. However, in his view financial assistance from the state should on no account be allowed to result in disguised discriminatory protectionism.

In this connection, the Council laid down in Article 8 of its Directive of 4 April 1978 on aid to shipbuilding that: 'Aid granted to shipowners in a Member State for the purchase of ships shall not discriminate against the shipyards of other Member States'². The last recital of this Directive reads as follows: 'Whereas measures in favour of national shipowners should under no circumstances discriminate against shipyards of other Member States'.

At that time, the Commission made the following explanatory comments on the passage in question: 'As far as certain aids limited directly to the purchase of ships by shipowners are concerned, checks are to be made after the assistance has been granted to prevent Member States using it to encourage the placing of orders with national yards only. This would not only create discrimination among shipbuilders but restrict the shipowners' freedom to order ships where they find the most favourable economic terms'.³

25. The draftsman of the opinion agrees with this view. However, he would consider it logical for the government of a Member State to make the granting of substantial financial aid to shipowners for the purchase of sea-going vessels conditional upon the ships being built

¹ Le Monde, 28.4.1978

² OJ No. L 98, 11.4.1978, p. 19

³ Doc. 391/77, p.2, paragraph 1.3.3.

in Community yards. It would be completely senseless for a country to give financial support to its shipyards and its shipowners if the latter were to place their orders in another country which collected the profits. This rather delicate problem must clearly be investigated carefully before Community provisions can be adopted. Your draftsman would therefore ask the Commission to make a detailed study of the subject in consultation with representatives of the business circles concerned.

B. The present communication and its implications for the Community's sea transport policy

26. In view of the crisis in the sea transport sector and the importance of that sector in Community affairs, it is extremely regrettable that the Community has still not succeeded in developing a coherent sea transport policy, not to mention implementing such a policy. It is now almost 2½ years since the French Government, on 8 December 1975, submitted to the Council of Ministers of Transport a memorandum advocating the development of Community policy guidelines for sea transport¹. This document has still not resulted in any legislative action in the Community.

The following passage from the communication from the Commission to the Council on 'priority business for a Council working programme to 1980' is relevant to the Community's shipping policy²: 'in shipping the examination already underway between Member States and the Commission, designed to pinpoint the fields where Community action is called for, should be pushed ahead. The priority tasks in hand are: problems arising for liner trades over the code of conduct and flag discrimination, definition of competition rules in sea transport, the impact of Eastern bloc activities, substandard ships and mutual acceptance of seafarers' qualifications, together with effective means of influence in international organizations, such as IMCO'.

Since drawing up the communication, the Commission has submitted a proposal to the Council on the United Nations Convention on a code of conduct for liner conferences (in this connection see the abovementioned report by Mr McDonald (Doc. 47/78)), a draft Council decision concerning the activities of certain state-trading countries in cargo liner shipping (Doc. COM(78) 146 final of 6.4.1978), and a Communication on marine pollution arising from the carriage of oil ("Amoco Cadiz") (Doc. COM(78) 184 final of 27.4.1978).

¹ Cf. press release of the Council meeting of 10 and 11 December 1975 (PE 43.156)

² COM(77) 596 final, 24.11.1977, distributed in the form of a notice to members (PE 51.963), paragraph 15, p.6

In a resolution tabled by Mr Nyborg on behalf of the Committee on Regional Policy, Regional Planning and Transport (Doc. 81/78), Parliament welcomed the principles contained in the draft decision concerning the activities of certain state-trading countries as a first step towards the measures it advocates. Your Committee intends in due course to draw up a detailed opinion on the proposed measures. The same applies to the Communication on marine pollution, where your Committee agreed in principle with the Commission's proposals in its interim report drawn up by Lord Bruce of Donington (PE 53.768) but reserving itself the right to produce a more considered opinion after the public hearing it is intended to organise on 20, 21 and 22 June 1978 in Paris on the most effective means of preventing accidents to shipping in Community waters, and the avoidance of consequential marine and coastal pollution.

27. Even if both proposals are adopted at the next Council meeting, scheduled for 12 June 1978, a Community shipping policy will still be far from reality. Until such time as an overall 'maritime concept' is developed, isolated measures will only be of relative value.

It is obvious, in view of the importance of sea transport for independence, the Community's external trade, essential supplies of raw materials, the balances of payments of the Member States, and employment opportunities, that a Community sea transport policy is urgently necessary.

28. In its communication, the Commission stresses the importance of the Community fleet and the interdependence between sea transport policy and shipbuilding policy. The Committee on Regional Policy, Regional Planning and Transport can wholeheartedly endorse the general arguments put forward on this matter.

29. Among the measures to be taken with a view to reorganizing the shipbuilding industry, the Commission lays particular stress on activities aimed at stimulating demand by reducing the present surplus capacity.

In practical terms, this means that the Commission is considering working out minimum standards with a view to protecting the environment and improving safety. It hopes that these provisions will help to sustain the shipyards or provide more work for them since logically a number of ships which do not meet these minimum standards will have to be withdrawn from service and at least partially replaced, while others will have to be converted.

Although the Committee on Regional Policy, Regional Planning and Transport can endorse these measures in principle¹, it reserves the right to submit a more detailed opinion at a later date since it does not wish to anticipate the conclusions of the public hearing it plans to hold in June 1978 on the prevention of shipping accidents, with which the above two factors are of course closely connected.

30. The draft decision setting up a shipbuilding committee may be approved without reservation. A thorough knowledge of the facts of the situation is obviously an essential prerequisite for well-considered decisions, and one of the major tasks of the committee will be the permanent monitoring of the shipbuilding market.

V. CONCLUSIONS

31. Being deeply concerned at the substantial overcapacity in the shipbuilding industry and the considerable surplus tonnage, with the resulting severe repercussions on sea transport freight rates, the Committee on Regional Policy, Regional Planning and Transport welcomes the Commission's action in drawing up an overall plan for the reorganization of the shipbuilding industry in which emphasis is placed on social and regional aspects. However, it regrets that a number of important aspects of the reorganization programme are not dealt with in sufficient detail. This applies in particular to the role and contribution of the ERDF. The measures relating to sea transport policy unfortunately still suffer from the lack of a basic plan; isolated provisions, however constructive they might be, are no substitute for such a plan.

32. The Committee on Regional Policy, Regional Planning and Transport would therefore ask the Committee on Economic and Monetary Affairs to take particular account of the following suggestions when drawing up its motion for a resolution:

- as regards regional implications, the Commission should draw up a more detailed financial analysis without delay and submit proposals for practical measures to the Council on the basis of this analysis since it is clear that the crisis in the shipbuilding industry affects regions already suffering multiple disadvantages. Therefore it is essential that the Regional Fund allocations and, in particular, the proposed "hors-quota" section of the fund, take fully into account the developments in the shipbuilding industry;

¹ The abovementioned report by Mr Seefeld on sea transport problems in the Community (Doc. 5/77) also draws attention to the desirability of joint action to prevent marine pollution and to improve safety at sea

- as regards sea transport it is essential for an overall Community sea transport plan, in which the measures now proposed can be integrated, to be worked out as soon as possible.
- as regards aid to shipowners it should be a condition that such aid only can be given for ships built in the shipyards within the Community.

ERDF Intervention in the shipbuilding industry in 1975, 1976, 1977

ERDF No.	Region	Jobs created	Aid u.a.	Investment u.a.
<u>DENMARK</u>				
75/01/2/0001/0003	Nord Jutland, Hirishals	48		744,853
75/01/2/0001/0004	Nord Jutland, Hirishals	32		746,667
76/01/2/0001/0005	Nord Jutland, Fredikshavn	100		1,560,000
Total: 3 projects		180		3,051,520
<u>FRG</u>				
76/02/2/0001/0001	Flensburg (Schleswig-Holstein), Flensburg	60		1,366,120
77/02/2/0050/0004	Kiel (Schleswig-Holstein), Kiel	60		672,131
76/02/2/0002/0006	Rendsburg-Eckenf. (Schleswig-Holstein), Rendsburg	55		4,371,585
76/02/2/0017/0002	Leer (Niedersachsen), Leer	150		3,591,530
77/02/2/0002/0001	Emden (Niedersachsen), Emden	60		4,612,295
77/02/2/0002/0003	Aschendorf-Huemmling (Niedersachsen), Papenburg	80		1,366,667
Total: 6 projects		465		15,980,328
<u>FRANCE</u>				
75/03/2/0005/0002	Ille-et-Villaine (Bretagne), St-Malo	61		1,095,559
75/03/2/0025/0005	Guadeloupe (Dom), Les Saintes	13		273,847
77/03/2/0014/0009	Vendée (Pays de la Loire), Les Herbiers	65		1,083,855
Total: 3 projects		139		2,453,261
<u>ITALY</u>				
76/05/2/0005/0012	Nuoro (Sardegna), Tortoli	40		1,801,600
77/05/2/0009/0001	Livorno (Toscana), Portoferrario (Elba)	70		2,148,800
77/05/2/0010/0015	Teramo (Abruzzi), Castilenti	28		764,800
Total: 3 projects		138		4,715,200
<u>UK</u>				
75/09/2/0010/0004	Cornwall (South West), Penryn	40		297,600
76/09/2/0011/0003	Dyfed (Wales), Burion Milford Haven	120		1,264,799
Total: 2 projects		160		1,562,399
<u>TOTAL</u> shipbuilding industry: 17 projects		1,082	(Estimate: 2.52 m u.a.)	27,762,708
<u>Total industrial investment 1975-1976-1977 throughout the Community:</u> 1,603 projects		174,854	452,705,175	6,033,805,130
<u>Total industrial and infrastructural investment 1975-1976-1977 throughout the Community:</u> 4,748 projects		175,096	1,304,118,180	11,711,060,655

ANNEX II

ERDF Intervention (1975/1976/1977 except for last tranche) in favour of industrial investment projects - regions with high shipbuilding concentrations

Region	Investment projects						Total		
	of more than 10 m u.a.			of less than 10 m u.a.					
	No. of proj.	No. of jobs	Amount of invest. m u.a.	No. of proj.	No. of jobs	Amount of invest. m u.a.	No. of proj.	No. of jobs	Amount of invest. m u.a.
<u>FEDERAL REPUBLIC OF GERMANY</u>									
Schleswig-Holstein	1	250	95.63	25	1,056	40.07	26	1,306	135.70
Nieder-sachsen				12	870	38.19	12	870	38.19
Bremen				1	65	2.10	1	65	2.10
Total	1	250	95.63	38	1,991	80.36	39	2,241	175.99
<u>FRANCE</u>									
Haute Normandie				2	336	6.47	2	336	6.47
Basse Normandie				5	1,078	2.71	5	1,078	2.71
Nord-Pas-de Calais	3	1,093	87.78	16	2,755	45.92	19	3,848	133.70
Bretagne	1	150	18.39	4	607	9.49	5	757	27.88
Pays-de-la Loire	1	1,033	16.90	10	2,123	15.32	11	3,156	32.22
Aquitaine				5	2,270	17.98	5	2,270	17.98
Provence-Côte d'Azur				2	93	0.92	2	93	0.92
Total	5	2,276	123.07	44	9,262	98.81	49	11,538	221.88
<u>ITALY</u>									
Campania				23	1,695	50.48	23	1,695	50.48
Sicilia				7	360	7.85	7	360	7.85
Total				30	2,055	58.33	30	2,055	58.33
<u>UNITED KINGDOM</u>									
Northern	8	6,331	699.75	52	4,708	55.43	60	11,039	755.18
North West				12	705	14.80	12	705	14.80
Scotland	7	2,017	197.23	28	4,517	47.12	35	6,534	244.35
Total	15	8,348	896.98	92	9,930	117.35	107	18,278	1,014.33
<u>GRAND TOTAL</u>	21	10,874	1,115.68	204	23,238	354.85	225	34,112	1,470.53

