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REPORT ON THE STATE OF THE

SHIPBUILDING INDUSTRY IN THE COMMUNITY

(SITUATION AS OF 1 JANUARY 1980)

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Summary

This report is the second in a series of reports that the Commission is to present to the Council at regular intervals. It analyses the latest statistics on the shipbuilding industry, thereby showing what point has been reached in the crisis confronting the industry and what remedial action has been taken.

With industrial activity and the resulting trade flows fairly buoyant, shipping showed signs of a recovery in 1979. This generated demand in certain segments of the market together with a decline in productivity in the operation of vessels due notably to higher bunker costs, which triggered something of a revival in new orders placed with shipyards (+32% world-wide and + 27% in the Community).

At the same time, however, vessel completions - both in the world at large and within the Community - continues their downward trend, falling by 15% in 1979. This took the overall fall since 1976 to 42% in the Community and to 37% world-wide.

The increase in orders is far from strong enough to engender a recovery of shipbuilding activity in 1980-81. Since the level of orders only just matched the level of completions, order-books have remained very short and shipyards are still faced with the problems of incomplete order books.

The level of employment declined in line with the fall in completions, with 22.000 jobs being shed in non-military newbuilding in the Community in 1979, bringing the number of workers who had lost their jobs since the onset of the crisis to more than 70.000.

The Community by and large held on to its share of the market in 1979, but, to do so, had in general to make greater efforts and more substantial financial sacrifices than its main competitors, since its industry, assisted by the public authorities, suffered a decline in its competitiveness on the shipbuilding market, due in particular to monetary factors.

The trends which became discernible in 1979 seem to be very precarious. For one thing, it is highly uncertain whether the economically unorthodox fleet-operation conditions will persist, and, for another, there is every likelihood that conditions in shipping and shipbuilding will be affected by the deterioriation in the general economic climate. These factors suggest that, in spite of the incipient improvement in 1979, the shipbuilding industry will still, in 1980 and 1981, have to contend with the repercussions of the imbalance between supply and demand in most segments of the market: those in which a balance is expected to be restored relatively soon will be unable to make up the shortfall in activity which, as had been forecast previously, seems likely to last until 1984-1985.

Efforts to make the shipbuilding industry more healthy and competitive are to be seen in this context, in order to put the shipbuilding industry back on to a healthy and competitive footing. In view of the severity of a number of problems, notably social and regional, the Commission has put forward proposals to enable the Community to help alleviate the consequences of the crisis.

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1. Introduction

The Council Resolution of 19 September 1978 (*) on the reorganization of the shipbuilding industry made clear that developments in the industry need to be closely monitored. The Commission therefore drew up in 1979 a first report on the state of the shipbuilding industry in the Community (**).

The present report updates the examination conducted in the first report and in the Commission Communication to the Council of 9 December 1977 (***). It sets out, in particular, to describe the situation, which has shown some conflicting features in recent months. Shipping demand in tonnage terms has picked up somewhat, helped by less rational fleet management, particularly where oil tankers are concerned. This has brought about a slight recovery in new orders placed with shipyards. But this situation seems to be far from stable.

Even leaving aside the effects of low economic growth expected for 1980 if not longer, various political developments, notably on the energy front, have imposed, and will continue to impose, constraints, thereby introducing a greater element of uncertainty into any forecast of short-term market developments. The trends which are highlighted in this report, and which suggest that the crisis in the industry is not over, reflect the developments that are expected to take place on the basis of the market mechanisms, any unforeseeable external interferences being disregarded.

Since prospects for developments in this sector are no more hopeful than they were previously, various measures which the Commission envisages are still relevant. Excluding measures aimed at supporting, through the Community budget, adjustment and reconversion of the sector, - measures which have not been approved - it is mainly a question of an anti-cyclical scrap-and-build measure for ships in order to stimulate demand without increasing the available fleet (which shows a tendancy towards overcapacity), accompanied by complementary social measures in this sector.

2. Situation of the sector

2.1 General survey

The general economic situation was more buoyant in 1979 than could have been expected following events on the oil front : the Community's gross domestic product grew by 3.3 %, private investment rose more rapidly than at any other time since 1973, and the rate of capacity utilization in industry generally increased.

(*) OJ No C 229 of 27 September 1978.
(**) Supplement 7/79 to the Bulletin of the European Communities.
(***) Supplement 7/77 to the Bulletin of the European Communities.

The outlook for 1980 is less promising. According to the Commission departments latest forecasts, general economic growth will be down to 1.5% for the Community as a whole and could be even negative in some Member States; forecasts compiled by the OECD for the OECD area as a whole indicate a comparable hypothesis. The recession would mainly occur in the second half of the year.
International trade, by far the greater part of which is sea-borne, will feel the effects of this situation. After recovering somewhat in 1979, the volume of sea-borne trade is likely to grow more slowly in 1980 and will probably go on expanding at a below-average rate in 1981; there is a real chance that the situation of shipyards will deteriorate once again.

The level of activity in Community shipyards continued its downward trend in 1979. None the less, total completions again exceeded new orders, suggesting that the contraction will continue. This is bound to accentuate the already quite severe social problems in some of the regions affected.

The main factors determining the situation of shipyards and of the shipping market on which shipyards depend are described below.

2.2. Appraisal of the situation on the shipping market

Under the impact of the growth in industrial production in the OECD countries, world-wide shipping, measured in tonnage terms, expanded by 5% in 1979. Expressed in ton-miles, however, the increase was only 3.5%, owing to a reduction in average distances covered.

None the less, demand in tonnage terms rose, bringing about an improvement in the situation on the freight market, where rates picked up significantly throughout 1979 and, for most categories of vessels, more than compensated for the two-fold increase in bunker costs during the year.

This upward trend was helped by the virtual stagnation in the size of the world fleet, which increased by only 4 million dwt in 1979 as deliveries fell much more sharply than scrappings and losses.

The table below illustrates the increase in total tonnage carried and the limited expansion in the world fleet :

World seaborne trade and cargo-carrying fleet

	Oil and oil products carried by sea '000 million ton-miles	%	fleet *) million dwt	%
1973	10.216	100	234,3	100
1975	9.727	95	313,0	134
1977	11.459	112	356,1	152
1978	10.678	105	352,9	151
1979p	10.945	107	350,2	150
	Other cargoes carried by sea '000 million ton-miles	%	million dwt	%
1973	5.187	100	205,6	100
1975	5.636	109	230,7	112
1977	6.017	116	268,5	131
1978	6.344	122	279,8	136
1979p	6.685	129	286,9	140

*) as at end of year p = provisional Source : Fearnley & Egers,Oslo

The signs of a recovery were stronger in some markets than in others, and we must distinguish here between dry cargo and oil shipments.

As tha above table shows, oil transport in ton-miles increased by only a very small amount in 1979 (2.5 %) and even this improvement was attributable largely to stockpiling.

The breakdown of oil transport by type of vessel showed some change from 1978. The political unrest in the Middle East forced the industrialized countries to obtain more of their oil supplies from areas closer to home (the North Sea, Alaska, etc.), and medium-sized tankers are best suited to such journeys. The export policy pursued by the producer countries also meant that, in a large number of cases, this was the right-sized tanker to employ. As a result, additional demand was directed, above all, towards medium-sized tankers.

This additional demand made a major contribution to restoring equilibrium in this segment of the market and also in the market for vessels carrying refined products. Consequently, freight rates for both types of vessel climbed sharply in 1979, making their operation profitable once again.

In the case of VLCC/ULCC, however, rates in general did not rise sufficiently to cover capital charges, although some improvement was noted. This market was marked by an unchanged volume of shipments and by increasingly less efficient operation of the fleet in commission. Slow steaming , port congestion and part-cargoing were encountered more frequently in 1979, resulting in widespread refitting of vessels laid up. The following table reflects the extent of refitting, the bulk of which concerns tankers.

TONNAGE LAID UP

		Number of vessels	'000 grt	'000 dwt
1978	July	765	29.651	55.289
	October	737	25.486	47.507
1979	January	595	16.678	30.290
	April	526	15.048	22.395
	July	417	11.206	20.063
	October	353	7.490	12.518
1980	January	298	6.204	10.603

Source : Institut für Seeverkehrswirtschaft, Bremen

According to some experts, these developments accounted for close to 60 million dwt in the very large tanker fleet, and part of this represented hidden overcapacity. And so, in spite of the limited tonnage laid up, equilibrium is far from being restored on the market, since this reserve tonnage may rapidly reappear as surplus capacity.

In the dry cargo sector, transport measured in ton-miles rose by 5.3 % in 1979. The expansion in economic activity pushed up the industrialized countries' demand for raw materials. The demand for iron ore rose sharply, particularly as importers attempted to build up stocks in anticipation of higher prices. The energy situation also prompted renewed interest in coal, imports of which grew steadily. Lastly, shipments of cereals also rose, boosted in particular by increased demand from the USSR for wheat.

However, the effects of slow steaming and port congestion were particularly disruptive in the case of transport of iron ore and cereals, and this resulted in less efficient capacity utilization.

As the dry cargo carrying fleet expanded only little, the gap between transport supply and demand narrowed, making for general improvement in freight rates for all categories of bulk carrier.

The situation with regard to liner traffic does not appear to have improved much, and shipowners are still having to contend with the same financial and monetary problems and with the difficulties posed by unfair competition and cargo reservation practices.

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In spite of the positive factors noted on the shipping market in 1979, the fleet owned by the Member States of the Community contracted by close on 4 million grt between 1978 and 1979. It was slightly smaller in mid-1979 than in 1975. If this contraction continued, the repercussions it might have on the security of Community supplies and exports would have to be looked at closely. It is important to note that the picture will be changed by Greek accession to the Community on January 1981, and the situation will have to be reexamined in this context.

The following table illustrates the problem :

All merchant ships	World '000 grt	Community of Nine '000 grt	% of world figure	Greece '000 grt	% of world figure
1.7.1960	129.769,5	43 620,5	33,6	4 529	3,5
1.7.1970	227.490,0	57 369,4	25,2	10 952	4,8
1.7.1975	342 162,4	74 283,3	21,7	22 527	6,6
1.7.1977	393 678,4	76 392,6	19,4	29 817	7,6
1.7.1978	406 002,0	76 930,1	18,9	33 956	8,4
1.7.1979	413 021,4	73 071,8	17,7	37 352	9,0
Commercial trading types only					
1.7.1978	379 549,9	72 411,4	19,1	33 289	8,8
1.7.1979	385 485,7	68 495,3	17,7	36 631	9,5

2.3. Situation in the shipbuilding industry

2.3.1 General survey

The situation in the shipbuilding industry world-wide continued to deteriorate in 1979, with completions 15% down on 1978. However, new orders showed signs of recovering, being 32% up in cgrt. Order books have therefore ceased shortening and the deterioration experienced by the industry for the previous four years seems to have been arrested in 1979.

The different shipbuilding areas managed to retain their market shares, although the financial efforts this required varied a great deal. Substantial currency fluctuations benefited Japanese shipyards above all. With the value of the yen falling by over 20% against the dollar and with most European currencies making gains against the dollar, the cost differential between the Community and Japan widened significantly. According to some experts, the differential will probably lie in the range 25-55% at the beginning of 1980, depending on the country and type of vessel in question.

This currency erosion enabled Japanese shipbuilders to put up their prices in yen. They were able to cover their higher costs and to break even or indeed make a profit, without the price increases in national currency entailing the same percentage increase in their dollar prices on the world market.

In order to maintain their position, European shipyards were obliged to continue to accept orders at a loss and, in many cases, to have greater recourse to government support.

Whereas the Japanese shipbuilding industry has completed its capacity-cutting programme, efforts at adapting capacity in Europe show a fair amount of variation according to the countries concerned, making it difficult to assess their overall impact.

The tables below give the trend of completions, new order intake and order books in the Member States' shipyards. They are taken from two different sources, the OECD and Lloyd's Register of Shipping. Where the Member States are concerned, the OECD statistics constitute an official source but they provide a more limited range of data, contain breaks in the coefficients used for conversions into cgrt (1) and do not permit world-wide comparisons.

The figures produced by Lloyd's (LRS) are not infallible either; given they present a wider range of data, that, over a period of time the figures in cgrt are more comparable, and the care taken to refer the reader to homogeneous reference, it has been considered preferable to use this source for commentaries, it being, moreover, used world-wide by those concerned with the question. The discrepancies between the two sources originate mainly from differen appreciations as to the moment when an order is considered as being definite, and in the coefficients for conversion in cgrt in 1976 and 1977. Despite certain differences in timing which can often arise from this, two sets of data show major trends which go generally in the same direction. Since the divergences between the two sources are only temporary, and the present report is essentially concerned with indicating the main trends, the reference to only one source is generally not of consequence.

2.3.2 Completions and new order intake

1000 cgrt

(see note 1 for details on coefficients)	1976		1977		1978		1979	
	LRS (AWES coeff. 76)	OECD (1967 coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)
Belgium	139,8	141,0	82,2	66,6	165,2	154,8	124,8	133,9
Denmark	560,6	425,0	496,0	422,4	362,5	378,7	351,4	303,9
France	672,4	1117,0	609,6	685,6	430,6	440,2	492,0	473,7
Germany	1468,0	1630,0	1364,6	1298,8	1029,1	1059,6	660,7	617,4
Ireland	20,3	14,0	21,7	20,8	5,0	-	18,9	17,0
Italy	353,9	314,0	462,0	386,0	305,2	283,1	248,6	232,1*
Netherlands	940,0	507,0	556,4	443,8	513,9	455,0	505,1	405,9
United Kingdom	985,1	824,0	782,8	675,2	718,4	708,9	579,0	583,9
Community	5140,1	4972,0	4375,2	3999,2	3529,9	3480,3	2980,3	2767,8

(*) Figures relate to the major shipyards only.

(1) cgrt = compensated gross registered ton, a measure which takes account of the volume of work that goes into building a vessel, calculated on the basis of the grt and of special coefficients for different vessel types and sizes (grt x coefficient = cgrt). New coefficients for calculating cgrt were agreed upon in the OECD in 1977. The figures for 1976 are based on AWES coefficients, which were the basis for the new OECD coefficients (but were not fully comparable). On the other hand the OECD figures for 1976 are based on OECD 1967 coefficients which diverge markedly from the new coefficients for certain types of ship. This explains why certain OECD values are not at all comparable with the other series.

New order intake
1000 cgrt

(see note 1 page 7 for details on the coefficients)	1976		1977		1978		1979	
	LRS (AWES coeff. 1976)	OECD (1967 coeff.)	LRS (new coeff.)	OECD (1967 coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)
Belgium	75,0	54,0	115,2	268,5	59,4	40,9	270,0	203,7
Denmark	317,1	220,0	281,0	208,1	263,8	306,6	391,0	418,9
France	63,6	37,0	61,6	72,6	214,1	175,6	487,3	350,8
Germany	726,1	511,0	707,7	666,6	535,8	448,6	805,9	1007,0
Ireland	19,2	-	5,0	-	3,0	-	15,0	17,0
Italy	301,5	281,0	148,9	27,5	330,0	265,6	156,6	56,0*
Netherlands	626,4	259,0	732,4	418,3	376,5	311,9	240,2	279,8
United Kingdom	627,6	421,0	489,3	553,2	230,2	338,5	188,9	305,4
Community	2756,6	1783,0	2540,9	2214,8	2012,6	1887,7	2554,8	2638,6

*) Figures relate to the major shipyards only.

In 1979, completions fell in all Member States except Ireland and France. In the case of France, however, completion of an ULCC which accounted for close on one quarter of completions and a substantial amount of the work on which had been carried out beforehand, influenced the statistics for 1979 which do not entirely reflect the real level of activity. 1) In some countries such as Denmark the 1979 fall in completions is less strong than the average fall for the Community, but it must be remembered that this country had previously experienced a greater decline in completions than the other Member States. In the reverse case, the fall in production in Germany was clearly stronger in 1979.

In the period 1976-79, the countries in which completions fell less sharply than the Community average were France, Belgium and Italy. It was in the latter two countries in particular that structures in the shipbuilding industry showed least change over that period.

1) According to the French authorities, production, established by averaging out completions, lay-downs and launchings had probably risen from 512.000 cgrt in 1978 to 413.000 cgrt in 1979.

Mention should here be made of aids, which were not unconnected with these trends in the Member States. Generally speaking, the purpose of aid systems is two-fold, namely to help underpin a certain level of activity and to facilitate restructuring. In the member States which provide aid for production, this was more or less of a comparable amount except in Germany where it was weaker. A special feature of the situation in Belgium and in Denmark is that aid arrangements concentrate almost exclusively on national shipowners but still provide an inducement to place orders with national shipyards. In Italy, no aid scheme was in force in 1979, but the effects of measures under study, for which retroactive application is envisaged, have to a certain extent already been taken into account.

Some Member States were prompted in 1979 to start providing aids or increase their level causing some rise in new orders
orders most of which had been held back in anticipation of such a move. The inflow trigged in this way accounted for the bulk of the recovery in the order intake in the Community. In countries such as Italy, the Netherlands and the United Kingdom, the level of new orders continued to fall.

Overall, it is worth noting that, in spite of the improvement for Community shipyards, order books failed to lengthen, with the result that shipyards' workload problems are as pressing as ever.

The following table shows the trend in the market shares of the major shipbuilding regions :

Source : Lloyd's Register of Shipping

	1976 '000 cgrt	%	1977 '000 cgrt	%	1978 '000 cgrt	%	1979 '000 cgrt	%
COMPLETIONS								
EC - 9	5140,1	23,3	4375,2	20,6	3529,9	21,3	2980,3	21,2
Rest of AWES (1)	3145,7	14,2	3278,6	15,5	2303,1	13,9	2127,5	15,1
(Western Europe)	(8285,8)	(37,5)	(7654,1)	(36,1)	(5832,9)	(35,2)	(5107,9)	(36,3)
Japan	8348,0	37,8	8358,0	39,5	6120,5	37,0	4975,2	35,3
Rest of the World	5444,4	24,7	5169,7	24,4	4593,2	27,8	3994,7	28,4
of which Eastern bloc	2755,4	12,5	2471,3	11,7	2132,3	12,9	1392,5	9,9
TOTAL	22078,2	100,0	21181,2	100,0	16546,7	100,0	14077,4	100,0
NEW ORDER INTAKE								
EC - 9	2756,6	17,2	2540,9	18,1	2012,6	18,6	2554,8	18,0
Rest of AWES (1)	1903,0	11,9	2076,6	14,8	1367,8	12,7	2179,9	15,3
(Western Europe)	(4659,6)	(29,1)	(4617,3)	(32,9)	(3380,6)	(31,3)	(4734,6)	(33,3)
Japan	7337,5	45,9	6245,9	44,5	4333,9	40,1	5904,6	41,6
Rest of the world	3985,3	24,9	3177,4	22,6	3081,8	28,6	3568,7	25,1
of which Eastern bloc	1896,9	11,9	1207,8	8,6	1146,8	10,6	950,0	6,7
TOTAL	15982,4	100,0	14040,7	100,0	10796,3	100,0	14208,0	100,0

(1) AWES : Association of West European Shipbuilders. Members from outside the European Community are the shipbuilders' association of Finland, Sweden, Norway, Spain and Portugal.

As can be seen from this table, the decline in completions and rise in new orders made for a balanced situation world-wide in 1979. This equilibrium suggests that the decline in completions will slow down overall. However, the situation is not the same everywhere. In Japan, for example, the ratio of new orders to completions was 114 % in 1979, indicating some pick-up in activity, whereas it was only 84 % in the Community, suggesting that the decline in completions will continue. If this trend were to continue or to become intensified it would give rise to new concern within the Community. Within the Community, the situation differs from one Member State to another and is more gloomy in the countries where the contraction in the volume of new orders has continued (see above). If new orders do not recover rapidly, it is in these countries that the threat of redundancies will probably be most severe.

The only change of any significance in the different regions' market shares as reflected in the above table is a continued increase in the share of some countries classified under "Rest of the world". These are primarily newly industrializing countries, such as Brazil and South Korea, where shipbuilding is playing a key role in the industrialization process. While the relative share of the traditional shipbuilding countries remained unchanged, there was a shift in the source and structure of this orders.

Analysis of the breakdown of orders by flag reveals a compartmentalization of the market which is, however, less marked in Europe than in Japan and the United States, where vessels ordered by domestic shipowners for own-flag registration are ordered almost exclusively from domestic shipyards.

In Europe, this tendency has been accentuated in the last ten years by government action which, in providing assistance for investment by shipowners, has prompted the latter to place orders with national yards in order to guarantee them a minimum level of activity.

The table below illustrates this development.

	1976			1977			1978		1979		
	National market	Other EC-countries	Non-EC countries	National market	Other EC-countries	Non-EC countries	EC TOTAL	Non-EC countries	National market	Other EC-countries	Non-EC countries
Orders placed by Community shipowners	64%	5%	31%	66%	3%	31%	83%	17%	73%	5%	22%
	TOTAL: 3 027 cgrt			TOTAL: 2 865 cgrt			TOTAL: 1 994 cgrt		TOTAL: 2 028 cgrt		
Orders received by Community shipyards	70%	5%	25%	75%	3%	22%	74%	26%	55%	4%	41%
	TOTAL: 2 756 cgrt			TOTAL: 2 540 cgrt			TOTAL: 2 012 cgrt		TOTAL: 2 555 cgrt		

Source: LRS

The above figures tell only part of the story, since, for want of detailed statistics in this field, they do not include orders placed by Community shipowners for additions to their fleets that sail under flags of convenience.

Aggregate orders by Community shipowners have virtually marked time for the last twelve months, and this may well prolong the relative decline - discussed above - in the size of Member States' fleets vis-à-vis the world fleet.

What is more, orders placed by Community shipowners with Community yards fell, obliging the latter to step up their export efforts in order to fill their order books. France is the most typical example here. French shipowners, who had, for the most part, completed the renewal of their fleets before 1978 and who are in a difficult financial situation, accounted for only 17% of orders placed with French shipyards.

One of the consequences of compartmentalization of the market is that export orders come mainly from Eastern bloc countries, developing countries and flag of convenience countries.

To secure part of this market for their industry, various countries offer considerable financial incentives which may sometimes go against the long-term interests of their shipowners.

The following table shows the trend of world orders by major vessel types. The percentages show the proportion of orders won by the Community.

Trend of new orders by vessel type

1000 cgrt	Oil tankers	Bulk carriers	Cargo ships	Non-cargo vessels	TOTAL
1977 world	790,6	1.783,2	8.786,5	2.680,4	14.040,9
% EC	3%	4%	21%	22%	18%
1978 world	1.185,4	534,8	6.878,9	2.197,6	10.796,7
% EC	5%	4%	24%	12%	19%
1979 world	3.364,8	2.744,9	6.524,1	1.574,1	14.207,9
% EC	5%	17%	25%	19%	18%

Source : LRS

The growth in orders of almost 4 million cgrt in 1979 is therefore due to oil tankers and bulk carriers alone, orders for which increased by a total of 4.38 million cgrt compared with 1978. The fall in orders for the other categories is particularly marked in the case of non-cargo vessels. This renewed interest in tankers derives from the situation in the shipping market described above. Demand concentrated mainly on those types of vessel for which some degree of balance has been re-established, notably tankers of 80 000 dwt, oil product carriers of 30-40 000 dwt and bulk carriers of 60 000 dwt upwards.

However, anticipatory action, which is fairly common on this market at the least sign of even temporary improvement, accelerated the order process.

It should also be noted that Community shipyards considerably increased their share of the bulk carrier market. However, this rise does not appear to constitute a significant trend.

The following table shows the respective shares of the different categories of vessel in Community and world orders:

1979	Oil tankers	Bulk carriers	Cargo ships	Non-cargo vessel	Total
Community					
cgrt	168.1	466.4	1628.0	292.3	2554.8
%	6.6 %	18.3%	63.7%	11.4%	100.0%
World					
cgrt	3364.8	2744.9	6524.1	1574.1	14207.9
%	23.7%	19.3%	45.9%	11.1%	100.0%

Source LRS

In spite of a slight fall compared with 1978, cargo ships still account for the bulk of Community orders. Within this category, sophisticated vessels account for 70% and gas and chemical product carriers for 10%. At almost 50%, cargo ships and non-cargo vessels have the highest export ratio.

2.3.3. Order book and workload situation

At world level, order books at 31 December 1979 were at the same level as at the end of the previous year, the order intake having offset deliveries for the year.

The following table shows the changes in the order book situation in the principal shipbuilding regions:

Order books

1000 cgrt	At 31 December 77		At 31 December 78		At 31 December 79	
	LRS	OECD	LRS	OECD	LRS	OECD
EC	7226,2	6496	5087,2	4870	4882,8	4717
Rest of AWES	5316,2	4770	3957,2	3834	3919,7	3932
AWES	(12542,4)	(11266)	(9044,4)	(8704)	(8802,6)	(8649)*
Japon	7834,5	7059	5464,6	4605	5841,6	5004
Eastern Bloc	2982,0		2121,7		2297,3	
Other regions	7840,6		6787,9		6627,0	
TOTAL	31199,5		23418,6		23568,5	

*) Ces totaux incluent le carnet de commandes de l'Italie pour les grands chantiers uniquement.

Comparing one region with another, it should be noted that, although the order book levels of Japanese shipyards are traditionally lower than those of the AWES, the difference between the two continued to narrow in 1979.

In the Community, order books were unchanged from the previous year's level, but even if completions move towards the level of new orders in 1979 - the most probable hypothesis - there will be a further reduction of some 20 % in completions in 1980.

As the following table shows, the order book situation varies according to Community country :

1000 cgrt	L R S					O E C D				
	Completions 1979	Total order books at 31/12/79	For delivery in 1980	1981	1982+	Completions 1979	Total order books at 31/12/79	For delivery in 1980	1981	1982+
Germany	661	896	509	376	12	617	1113	661	452	-
Belgium	125	388	168	148	72	134	316	162	123	31
Denmark	351	704	317	268	119	304	712	290	338	84
France	492	1004	447	545	13	474	859	424	408	27
Ireland	19	20	3	17	-	17	17	-	17	-
Italy	249	772	602	142	27	232*	526*	404*	122*	-
Netherlands	505	385	304	80	-	406	382	235	118	29
United Kingdom	579	713	488	225	-	584	792	533	217	42
Community	2981	4882	2838	1801	243	2768	4717	2709	1795	213

*) Large shipyards only

In countries such as Germany, Belgium and Denmark, the order book situation has improved markedly; on the basis of present manpower levels, the industry's workload in these countries should generally be assured for at least 18 months.

As pointed out above, this situation is not unconnected with the introduction or even increase of direct or indirect government assistance in these countries in 1979. Order books in France and Italy changed only slightly between 1978 and 1979, but the workload situation there remains broadly comparable with that in the above mentioned countries.

In the Netherlands and the United Kingdom, on the other hand, the situation again worsened, with the rate at which completions are covered by new orders reaching only 47 % and 33 % respectively in 1979. Dutch shipyards are thus in the perilous position of having an assured workload of only 9 months on average.

2.4. Employment

In 1979, the numbers employed in shipyards on the building of non-military vessels fell more rapidly than expected (e.i. by some 22.000 or almost 15% compared with the previous year). The number of employees stood at some 129 000 at the end of 1979 and has thus shown an overall fall of 36% since 1975, when the figure was 200 000.

Employment in shipbuilding in the Community at end of year (newbuilding in non-military sector).

	1975	1978	1979
Belgium	6138	5140	5100
Denmark	16630	12000	9900 (April 1980)
France **)	27628	22010	20900
Germany *)	46800	32400	27369 (1979 average)
Ireland	869	840	750
Italy	25000	20000	19000
Netherlands ***)	22662	17540	14540 (estimate)
United Kingdom *)	54550	41050	31200
Total	200277	150980	128759

(Table compiled from various sources)
*) military shipbuilding excluded
**) employment in shipyards with more than 150 workers
***) revised series including shipyards affected by reorganization.

Although this reduction is considerable, it should be noted that completions, which fell by some 42% between 1976 and 1979, have contracted more rapidly than employment.

On the basis of a representative sample of shipyards, there has been a general downward trend in actual working hours, this trend being more marked in some countries, such as France and Germany, than in others. A similar trend has been noted in respect of overtime, both in the case of the maximum number of hours authorized and of the actual numbers worked. Shift work (particularly on a three-shift basis) is becoming increasingly less widespread. This trend towards a reduction in working hours should enable a certain level of employment to be maintained. However, the reductions in employment which have already taken place are substantial in some regions and the rate at which further reductions take place should depend, amongst other things, on re-employment opportunities in the regions concerned. Despite this, the problem of over-employment does not appear to have been resolved in all cases.

Sufficiently detailed data are not available concerning the ways in which the 22 000 jobs were eliminated in 1979. There are certain indications that the transfer of workers to connected activities, such as military shipbuilding, within the same undertaking has absorbed an appreciable proportion of those made redundant while it would seem that a switch to non-naval activities cannot be easily or readily accomplished.

It should be noted that the figures in the above table show the employment balance within the industry and that the number of job losses may in fact be higher, inasmuch as there has been recruitment of new workers. While reductions in employment do not appear to have solved the problem of over-employment in all cases, it should nevertheless also be noted that some shipyards are still reporting difficulties in recruiting skilled labour.

The European Social Fund has received applications for contributions towards assistance to redeployment and vocational and geographical mobility of surplus labour, and the Commission is giving sympathetic consideration to these applications.

Given the prospect of a very low rate of economic growth and the disparity between competitive positions on the world market, it is possible that the volume of new orders received by the Community industry will continue, at least in 1980 and 1981, at a very low level of some 2 to 2.5 million cgrt. This will affect the level of completions and possibly threaten the jobs of some 30 000 persons in the non-military shipbuilding industry. The Commission endeavours to propose, along with measures designed to increase the level of demand and to promote restructuring and conversion, specific social measures designed to help avoid intolerable social consequences.

In this conext the Commission has just proposed the creation of a new aid from the European Social Fund to maintain at a reasonable level the incomes of older workers aged 55 or more who leave the shipbuilding sector in connection with restructuring measures.

3) Market forecasts

The impact on the medium-term market prospects of the special factors which influenced demand for tonnage in 1979, and in particular those relating to fleet productivity, has not yet been the subject of overall foreward analyses by experts. Given the growing uncertainty on the market, such an analysis is very difficult to make at the moment. Consequently, we can do no more at this stage than pinpoint the main qualitative factors on which it may be possible to base an assessment of future trends.

In the case of oil tankers, the supply picture is marked, for the reasons given above, by a considerable reserve of tonnage. Although this reserve is not conspicuous, it can, if required, be converted immediately into actual transport capacity. If we add to this the likely stagnation or even decline in oil imports and the disappearance of the needs created by the rush to stockpile oil in 1979, it seems probable that new tonnage requirements will again be very limited, particularly in the case of large and very large vessels. Furthermore, those concerned feel that balance between supply and demand will not be restored until 1983-84 at the earliest, while they give 1985 as the most likely date.

In the case of dry cargo vessels, the rate of growth of demand in 1980 is unlikely to match that in 1979. A virtually general economic recession is anticipated in 1980 which is bound to cause a decline in trade, leading in turn to a fall-off in shipping requirements (+ 2.3% in 1980 compared with 5.3 % in 1979). However, markets such as the transportation of foodstuffs (particularly cereals) and coal, which depend less on swings in the business cylce, may well continue to grow at the same rate as in 1979 (by approximately 6%).

As regards general economic trends beyond 1980, estimates are difficult to make since they depend particularly on such imponderables as the trend in oil prices, adaptations to this trend and inflation. It is felt that GNP is likely to increase in industrialized countries by 2.5% per annum, i.e. less rapidly than during the 1975-80 period (when it grew at an annual average of 3.3%). It is thought that in 1981, which will still be affected partly by the poor situation in 1980, the figure will be even lower than this average. The slowdown in demand for vessels which will take place in 1980 and 1981 probably make it impossible to use in these years all the available capacity, which will therefore have to be absorbed subsequently. This is bound to depress the level of new orders until 1981 at least, except perhaps in certain fairly limited segments of the market.

Under these circumstances, the Commission, in common with most of the circles concerned, feels that the forecasts available up to now are still valid. The following table repeats the main results of these forecasts as set out in the first report on the state of the shipbuilding industry in the Community.

Type of vessel	Contracting requirements 1978 to 1985 (in million grt)	(in million cgrt)
Oil tankers >10 000 dwt	20,0	9,3
<10 000 dwt	1,4	3,4
Bulk carriers	13,0	6,0
General cargo ships	29,2	34,7
Gas carriers	7,5	5,2
Miscellaneous	9,9	27,1
Total	81,0	85,7
Annual average (January 1978 to mid-1984 = 6.5 years)	12,5	13,2

Taking account of these factors, it is probable that the slight improvement in 1979 does not yet mean that the market has generally and finally entered a recovery phase and should therefore in no way serve as a pretext for discontinuing the necessary reorganization of shipyards called for in the Council Resolution of 19 September 1978.

4) <u>Structural developments</u>

In all the Member States, continued efforts have been made to adapt shipbuilding to market conditions and prospects, with the result that unquestionable progress has been made in reorganizing the industry. The main measures taken include reductions in the labour force and working hours, shipyard closures and diversification. The developments in each Member State, which vary generally from one to the other, are described in more detail below.

<u>Germany</u>

Since 1975, German shipyards have been forced to close some 20 of the 81 existing building docks, but it is difficult to state which of the closures are temporary and which will prove permanent. However, these measures cannot be isolated from the restructuring efforts which were made earlier, accompanied by considerable investment.

There have been substantial reductions in the workforce since the crisis. At the end of 1979, total employment was down by 23% compared with 1975 and by more than 40% in the merchant shipbuilding sector. Compared with 1978, the reduction in employment in non-military newbuilding was restricted to some 5 000 workers thanks to an increase in short-time working which affected 10 500 persons during the first half of the year. The introduction of the government aid programme caused order book levels to rise somewhat at the end of 1979, and short-time working by them affected only 2 600 persons. Nevertheless, total hours worked were at their lowest level since the crisis, i.e. less than 50% of the 1975 figure.

Efforts towards diversification have been persued and a number of yards have reduced the share relating to newbuilding with the result that, of the total number of hours worked in the sector, less than 50% have been devoted to this activity. These efforts have led both to an increase in other naval activities (worships, repairs, etc...) and a noticeable development in activities outside shipbuilding which now exceed 10% of total hours worked.

<u>Belgium</u>

There have been no major structural changes in Belgium.

Since the crisis, the trend in orders has led to reductions in employment. These occurred primarily in 1976, since when the workforce has been maintained at roughly the same level, partly owing to the building of vessels on own account and the introduction of short-time working.

<u>Denmark</u>

In Denmark, responsibility for the industry's reorganization lies with the shipyards alone.

Since 1975, yards have had to rely increasingly on orders from national shipowners, but these have not been sufficient to avoid a reduction in employment: more than 6 600 jobs have had to go, although this has involved the closure of only three small yards.

In 1978, the gravity of the situation led the Danish Government in particular to speed up the placing of public orders.
Furthermore, the special credit conditions afforded to Danish shipowners, which had been introduced at the beginning of 1979, were extended by a year and therefore remain in effect until the end of 1980.

France

While there have been major structural changes in the past in France, few changes occurred in 1979.

Since 1976, the major French shipyards have embarked on a programme of diversification, particularly through mergers with complementary companies. Furthermore, a major shipyard has even broken through the traditional division in France between shipbuilding and ship repairing.

During the same period, the number of small shipyards has fallen from ten to seven.

The government support plan, which sets an order target of 435 000 cgrt in 1980 and 420 000 cgrt in 1981, contains structural guidelines designed to group together certain shipyards.
During 1979, the situation worsened and the low level of orders compelled the Government to grant special assistance to two major shipyards. During the same year, the average number of hours worked per week fell from 42 to 40 and even reached 34 in one large shipyard. With regard to employment there has been a reduction of 6500 jobs since 1975. It is forecast that there will be a reduction of 2000 jobs in 1980.

Ireland

In 1978, the Irish Government decided to grant financial assistance for the reorganization of its only shipyard capable of building ocean-going vessels, with the aim of reducing activity in the shipbuilding sector while at the same time boosting that in other sectors. The target for the end of 1980 is to reduce production by 35% compared with the level in cgrt reached in 1974-76.

Italy

Few structural changes took place in 1979 in Italian shipyards. The reorganization plan drawn up by the Government is still before Parliament and a new reorganization plan is being studied. As no aid programme has existed since September 1978, the Italian Government has proposed emergency support for shipyards, most of which have cut back their activities as a result of the contraction in orders. Nominal employment fell by only 5% in 1979, but the system of temporary lay-off was used on a large scale for the unoccupied workforce.

Netherlands

In 1979, the progress made in implementing the reorganization programme decided on in 1977 varied according to shipyard groups and new measures had to be drawn up in some cases.

Among the groupe of shipyards specializing in the building of large and very large vessels and in off-shore work, the aim of maintaining a single yard capable of building very large vessels has encountered substantial difficulties and has not been achieved as planned. Thus, to avoid its total closure, this shipyard has had to be separated from the group to which it belonged and it has been run since the beginning of 1979 as a State concern. Final decisions on the role of this shipyard were not taken. Within the same group, repair activities have also been reorganized.

The groupe of shipyards specializing in the building of large and medium-sized vessels has made good progress with its reorganization and these yards are now for the most part grouped around the largest shipyard, the modernization of which is fully under way. One yard in the group has been closed.

In the group of yards specializing in the manufacture of dredging equipment, the two largest units have been merged; in the same group, two yards have been closed.

In the case of the group of shipyards situated along the major rivers and the group of shipyards in the north of the country specializing in the building of small vessels, no progress has been made towards reorganization. A number of establishments have had to close down.

All these events led in 1979 to a contraction of employment of some 3 000 persons in newbuilding, leaving some 14 500 persons still employed at the end of the year.

United Kingdom

The reorganization programme of British Shipbuilders (BS), which was accepted in June 1979 by the United Kingdom Government, provides for a reduction in the merchant vessel building sector of 33% in production capacity and of 50% in the workforce compared with 1976. By 1981, production should thus be down to 430 000 cgrt and employment to 20 000 jobs.

Prior to this reorganization programme, three shipyards had already been closed since BS was set up. The aim of reducing capacity it to be achieved through the cessation of merchant vessel building in seven other shipyards in the group.

The reduction in the workforce is proceeding according to plan and the number of employees stood at 23 500 at the end of 1979. The workforce target for 1980/81, together with a capacity of 430 000 cgrt, should enable productivity in United Kingdom shipyards to be increased.

As regards diversification, the main emphasis has been on intensifying military shipbuilding. Employment in this sector has considerably increased since 1975.

The Belfast shipyard must also reduce its capacity and it will receive government aid for vessel orders for delivery after July 1981 provided that production and employment do not exceed the ceilings laid down.

5) Conclusions

The general short-term economic outlook described above, which is for virtually zero growth, rising inflation and still high interest rates, will probably have a negative impact on international trade and thus on the level of new orders for vessels. The Commission therefore feels that there is no likelihood of an upturn in the shipbuilding market before the end of 1981. Although there will be exceptions in some segments of the market, these alone will not be sufficient to have a noticeable impact on total demand.

The impact of this situation on the Community shipbuilding industry will be particularly heavy if shipbuilding continues to suffer, as it did in 1979, disadvantages from the appreciation of Member States' currencies, particularly against the yen; as the main world producer, Japan plays a decisive role in price formation on this market. It should also be noted in this connection that the production restrictions in force in Japan are to be relaxed for the 1981 fiscal year. Consequently, the resultant increase in actual production potential (from 39 % to 51 % on average of maximum production levels in the period 1974-75) may well, in a stagnating market, also exacerbate the difficulties which European shipyards will have in maintaining their share of new world orders.

It was against this background of market prospects that the Commission transmitted to the Council in 1979 a communication concerning an anti-cyclical scheme in the industry designed to boost demand and so alleviate the social consequences of the crisis. This scheme consists in promoting the scrapping and simultaneous building of ocean-going vessels of half the tonnage to be scrapped. The ideas presented were worked out in close contact with the circles concerned, which generally viewed them favourably. Following the Council's discussion of this communication at the end of 1979, the Commission is studying the possibilities of submitting concrete proposals in this field.

On a proposal from the Commission the Council has just agreed, in connection with the funds available from the non-quota section of the Regional Fund, that the priority regions eligible for this type of assistance should include those in which the shipbuilding crisis has particularly severe consequences.

On the social front, the Commission has just proposed measures designed to contribute to the maintenance of the incomes of older workers who leave the sector. These measures should enable the industry to continue its reorganization under acceptable social conditions.