COMMISSION OF THE EUROPEAN COMMUNITIES

COM (82) 564 final

Brussels, 13 September 1982

REPORT

FROM THE COMMISSION TO THE COUNCIL

ON THE STATE OF THE SHIPBUILDING INDUSTRY

IN THE COMMUNITY

(SITUATION AS AT 1 JANUARY 1982)

Com 564

CONTENTS

REPORT ON THE STATE OF THE SHIPBUILDING INDUSTRY IN THE COMMUNITY

Situation as at 1 January 1982

1. Introduction

The Council Resolution of 19 September 1978* called on the Commission to submit periodic reports on the state of the shipbuilding industry. This is the Commission's fourth such report. Like the previous ones**, it seeks to outline the current situation on the shipbuilding market and the prospects for the future.

At the end of 1981 the industry was still in a precarious position throughout the world; no glimmer of hope emerged in the course of the year despite the satisfactory flow of orders at the beginning. The root of the problem still lies in the enormous imbalance between production capacity on the one hand and demand, which has been depressed not only by the general stagnation in sea transport but also by the vast overcapacity of the fleets on the other hand. It looks as though this situation is bound to persist at least until tonnage-surplus is absorbed by a trade revival that is expected to accompany the general economic recovery, which itself has been painfully slow so far.

Demand for vessels fell by approximately 2.1% in 1981. On the other hand the yards managed to increase their output by about 9.6%. However, this does not signify any upward trend, but merely that the balance between demand and supply has improved and production increased due to the surge of orders in 1980 and early 1981. Generally speaking, there have been no further job losses. This relative stabilization could lead one to believe that the crisis is now bottoming out. However, the marked depression of demand could soon create further difficulties. At any event, it is becoming increasingly clear that the industry is likely to remain short of business for some considerable time before the situation improves.

---

* OJ C 229, 27.9.78

** Supplement 7/79 to the Bulletin of the European Communities; COM(80)443 Final; COM(81)432 Final.

In addition to the factors affecting the trend in the general level of shipbuilding activity, a number of others - some of them outside the control of the industry - also play their part in determining what share of demand the competing shipbuilding countries take. The main external considerations are the expansion of production capacity in certain third countries, and particularly in South Korea, the disparity in the interest rates, the variations in exchange parity and the impact of national policies, and notably of those including aid schemes. The interplay between those factors adds to the incertainty of the individual governments and shipbuilding companies concerned. Since this process frequently puts European yards at a disadvantage, further support has been needed - despite the growing desire to cut down aid to the shipbuilding industry - in order to stave off the grave distruption of the shipbuilders' activities, which would otherwise throw the reorganization plans off-course.

Greece joined the Community on 1 January 1981. However, although it is one of the world's leading shipping nations, it has only a modest shipbuilding industry.

2. General economic background

The general economic situation remained gloomy throughout 1981. For the second year running, world production grew by less than 1% in volume terms. World trade expanded by only 1.7%, even less than in 1980, when the figure was only 2.2%. GDP grew by an average of 1.2% in the OECD as a whole in 1981, the situation being better than average in Japan, where there was a 2.9% increase, and worse in the Community where GDP shrank by 0.3%.

According to the latest Commission forecasts, economic activity in Europe could pick up slightly in 1982, though that is by no means certain. The Community's GDP is expected to grow by 1.4% assuming that the growth rate returns to 2.5% by the end of 1982. The main assumptions behind this hopothesis are that exports will continue to grow relatively dynamically, as at the end of 1981, and that there will be a slight increase in private-sector consumption.

At the world level, international trade is expected to expand by about 2.6% in 1982, based on imports, as against the mere 1.7% increase in 1981. However, even this slight revival must be considered fragile.

In view of the general gloom at the start of 1982, the international shipping community which handles the lion's share of the world's trade, has shown no sign of optimism either.

3. Trends in the sea transport sector

The position deteriorated in virtually all branches of the sea transport market in 1981, with the situation fully dominated by the combined impact of the overcapacity and of the weak demand for sea transport services. The total tonnage carried at sea slipped back by 5%, with the fleet utilization rate in ton-miles dropping by even 6%. This is on top of the 1980 losses of 3% and 5% respectively. On the other hand the total fleet still expanded by 1%; however modest that increase may appear, it nevertheless depressed the market, where the tension grew relentlessly all through 1981. The uneasiness was prompted, above all, by the manifest, and increasing, overcapacity, which has triggered a spectacular collapse in freight rates, by an average of between 30 and 50% in several sectors of the market.

The table below gives an idea of the main trends.

TABLE 1 — WORLD SEABORNE TRADE AND CARGO-CARRYING FLEET

	Oil and oil products				Other cargoes			
	carried by sea		fleet *		carried by sea		fleet	
	'000 million tonne - miles	%	million dwt	%	'000 million tonne - miles	%	million dwt	%
1973	10 217	100	234.3	100	5 187	100	205.6	100
1975	9 730	95	313.0	134	5.636	109	230.7	112
1977	11 467	112	356.1	152	6 050	117	268.5	131
1978	10 646	105	352.9	151	6 388	123	279.8	136
1979	10 659	107	350.9	150	7.016	135	287.0	140
1980	9 405	92	348.4	149	7 372	142	294.9	143
1981 p	8 280	81	342.4	146	7.460	144	307.7	150

*) as at end of year p = provisional Source : Fearnleys Oslo

These figures also show how much the trend varied from one sector of the market to another. For instance, the oil-tanker fleet carried 12% less in 1981, in tonne-mile terms, following a similar setback the previous year. The main reasons for this predicament are the some 6% reduction in oil consumption, the increase in oil output from the fields closest to the major centres of consumption and the shortening of the usual voyages now that the Suez Canal has been widened and deepened. Although there was a surplus tonnage of tankers even at the start of 1981, the fleet shed only 2% of its capacity - too little to stop the severe slump in tonnage carried from provoking a distinct deterioration in the market. The increase in the number of vessels withdrawn from the transport market in 1981, as compared with 1980, is further evidence of the depth of the depression. Tanker sales to breakers rose from 10 million dwt to 13 million dwt, whilst the tanker tonnage laid up leapt from 6 million dwt to 24 million dwt, with a further 29 million dwt relegated to storage as against the 17 million dwt in the previous year. As in the past, much of the overcapacity within the tanker fleet has been absorbed by making less efficient use of the vessels, and in particular by slow steaming. To a large extent, however, that practice depends on bunker fuel costs, hence adding a further destabilizing factor to the market.
Although statistics cannot tell the full story, the following table sets out some of the figures which illustrate those developments :

TABLE 2

TONNAGE WITHDRAWN '000 grt/dwt

Tonnage laid up					Tonnage broken up				Tonnage used for storage			
	month	No	GRT	DWT		No	GRT	DWT	month	No	DWT
1978	VII	765	29 651	55 289							
	X	737	25 486	47 507	1978	1 088	12 840	21 703			
1979	I	595	16 678	30 290					1979 I	40	7 856
	VII	417	11 206	20 063	1979	904	6 997	11 137	VII	37	6 668
	X	353	7 490	12 518					X	37	6 672
1980	I	298	6 204	10 603					1980 I	39	7 112
	VII	268	6 767	12 249	1980	887	9 184	15 940	VII	45	9 199
	X	233	5 371	9 512					X	67	14 266
1981	I	229	4 840	8 288					1981 I	74	16 866
	VII	246	8 618	15 562	1981	824	9 789	17 517	VII	77	15 668
	X	287	10 399	19 014					X	149	35 950
1982	I	353	14 111	26 391					1982 I	120	28 757

Sources: Institute of shipping Economics Bremen
Howard Houlder Chartering Ltd.

All concerned broadly agree that the overcapacity of the tanker fleet will continue to depress the market for at least two more years before the situation begins to improve, with oil trade expected, at best, to remain stagnant in the short term, with the deliveries resulting from the surge of speculative orders at the end of 1979 and during most of 1980 only slowing down the efforts to shed excess capacity.

Traffic in the dry bulk sector remained virtually stagnant in 1981, as in 1980. However, not only did the reduced rate of utilization of the bulk carrier fleet fail to cushion the effects of the overcapacity impact, as it had done in 1980, but, on the contrary, it actually re-mobilized some of the tonnage which had been mothballed, since the benefits of slow steaming were somewhat diminished by the reduction in port congestion. What is more, the orders placed, in some cases rashly, in 1980 and at the start of 1981 helped to swell the bulk carrier fleet by approximately 12 million dwt - an increase that was not matched by any parallel increase in demand, which remained stagnant. As already mentioned, this had a disastrous impact on freight rates - a danger foreshadowed in the Commission's previous report.

Turning to the chief commodities of the dry bulk sector, iron ore, steel and coke all weakened, though this was more than made up for by grain cargoes, particularly to the Soviet Union, which held their own well and coal, which is now considered the most promising seaborne dry bulk cargo, even if trade is growing slower than expected.

The overcapacity in the bulk carrier fleet is unlikely to be absorbed in the short term since demand is not expected to make any great advances over the stagnation of the previous two years, particularly in view of the persistent slump in economic activity in general and the further substantial expansion of the bulk carrier fleet which is to be expected when the speculative orders placed in 1980 and 1981 will have been carried out.

Conditions also deteriorated in the more specialized sectors such as the liner trade where the incipient overcapacity in most fleets, including the LPG, roll-on/roll-off, container and cargo fleets, is now beginning to become more evident and further development is paralysed by the general economic recession. However, these fleets do not appear to be as overtonnaged as the oil tanker and bulk carrier fleets and it should be possible to absorb the surplus capacity in the short term, with a few exceptions.

The decline in size of the fleet flying the flags of the Member States (other than Greece) - which first set in in 1979 - gained pace in 1981 when 3.7 million grt, or 5.2% of the fleet, was shed to take the total reduction over the last three years to 12%. The expansion of the Greek fleet has not entirely compensated for those cuts, leaving a net decrease of roughly 1 million grt for the Community as a whole in 1981. Community ship owners put much of the blame on the growing competition from the low-cost fleets recently assembled by the semi- or under-industrialized countries and on costs which have been aggravated within the Community by high wages; this is exacerbated by the persistent fierce competition from the Eastern-Bloc fleets. On the positive side, factors such as the appreciation of the US dollar, which has at least partly compensated for the collapse of the freight rates, and the successful restructuring by certain shipowners have helped to temper the deterioration and to prevent repetition of the disruption which afflicted many companies in 1980.

TABLE 3 - WORLD AND COMMUNITY FLEETS AS AT 1 JULY

World Total		EEC Total		EEC not including Greece		For Greece	
	'000 grt	'000 grt	% of world figures	'000 grt	% of world figures	'000 grt	% of world figures
1960	129 769.5	48 149.7	37.1	43 620.5	33.6	4 529.2	3.5
1970	227 490.0	68 321.4	30.0	57 369.4	25.2	10 952.0	4.8
1975	342 162.4	96 810.5	28.3	74 283.3	21.7	22 527.2	6.6
1977	393 678.4	105 909.7	26.9	76 392.6	19.4	29 517.1	7.5
1978	406 002.0	110 886.2	27.3	76 930.1	18.9	33 956.1	8.4
1979	413 021.4	110 424.4	26.7	73 071.8	17.7	37 352.6	9.0
1980	419 910.7	111 115.8	26.5	71 644.1	17.1	39 471.7	9.4
1981	420 834.8	109 928.3	26.1	67 923.3	16.1	42 005.0	10.0

Source: Lloyd's Register of Shipping (LRS).

Finally, in a move to ensure stricter application of the IMCO/ILO international standards concerning vessels and crews, and ultimately to remove the threat of competition from sub-standard vessels, the maritime authorities of 14 European states, including the Community memebers, signed a Memorandum of Understanding on Port-State Control at the second Ministerial Conference on Maritime Safety in Paris on 26 January 1982. That agreement provides for specific measures to harmonize inspection procedures at all ports in the Contracting states

and sets up an information system to warn neighbouring countries of any infringements spotted in the vessels inspected. Together, those measures will help to set the situation right by making sea transport safer and correcting the distortion in operating conditions.

4. Situation of the shipbuilding industry (1)

4.1 General trends

The general level of both activity and demand clearly shows that the crisis in the shipbuilding industry has not slackened and that there is no sign of any genuine recovery over the next two years.

This is partly due to the worldwide crisis in the sea transport sector, as outlined in the previous section, and partly because the industry's production capacity still far exceeds demand, despite the efforts which both Europea and Japan have made to redress the balance since the crisis first set in in 1976. Although, on the whole, the flow of new orders in 1981 was no worse than in 1980, the position weakened appreciably towards the end of the year, presenting a more sombre picture at the start of 1982 than on average for the previous two years. The danger is that this depression might cast its shadow over the next two years, since there is little chance of economic growth absorbind the existing overcapacity in the world fleets.

The initial combined effort to hold back supply and thereby reduce some of its unhealthy lead over demand has now evaporated, and Europe and Japan have been following diverging paths since 1980. Europe felt that the stagnant market called for continued caution on matters concerning the expansion and utilization of capacity. In contrast, Japan relaxed the production quotas set by its anti-crisis cartel and made full use of every form of financing available. This only opened the floodgates for an increase in Japan's active production capacity, thereby inevitably stepping up its yards' pressure on the market - moves which the Community has continually denounced since mid-1980, but which nevertheless persisted throughout most of 1981.

Even though at the turn of 1982 Japan appeared willing to limit the premature revival of its shipyards, the fresh impetus which its shipbuilding industry received in 1980 and 1981, with the full support of the authorities, is fraught with consequences for the future.

---

(1) See the Annex to this report for a guide to understanding and interpreting the units and sources of information used in this section of the report. Note in particular that the observations made are based on figures in cgrt supplied by Lloyd's Register of Shipping (LRS). Greece is included in the Community figures for 1981 and onwards, though not in those provided by the OECD, which had no data regarding Greece.

More specifically, artificially stirring up orders for, mainly, oil tankers and bulk carriers simply brought about a trend to anticipate requirements in those categories; consequently, at the end of 1981, when the short boom had died down, demand fell back and can be expected to remain stagnant for some time. Starved of orders for the vessels which provide their bread-and-butter activities, Japanese shipbuilders will have no qualms about trying to attract more orders for more sophisticated vessels with which to keep their newly expanded active production capacity occupied. However, those categories form the basic workload of the European yards, which had already great difficulties in trying to wrest orders for tankers and bulk carriers from their competitors in the Far East. This increased pressure on hitherto less-coveted sectors of the market is bound to force prices down - a phenomenon which has already started and which will hit European shipyards hardest, since they were the first to find it difficult to come to terms with current world prices dictated by producers from the Far East on today's buyer's market.

Unless Japan - the world's leading producer with 41% of the world market - adopts realistic measures compatible with the persistent depression on the market, there is therefore an imminent danger of renewed tension, which would hit the, more vulnerable, European shipyards hardest in 1982 and 1983. The emergence of the shipbuilding industry in countries such as South Korea - newcomers to this sphere of activity - is also partly to blame for the widening gap between supply and demand. All those countries have been steadily increasing their relative share of the market and are beginning, in their turn, to menace the success of the efforts to restore the market balance. To date, their production has focused largely on the categories with the greatest overcapacity already, though it is now beginning to turn to more sophisticated vessels as well. Nevertheless the short-term situation will, above all, be marked by the after effects of Japan's decision to reactivate its dormant capacity.

Contract prices for vessels tended to stagnate in 1981, following the 20 to 30% increase in 1980; towards the end of 1981 several shipyards in the Far East were charging less than in the first half of the year. This is the result of the reduction in the volume of orders, the shipbuilders now being in less of a position to invest in their fleets because of the continual erosion of the freight rates. The cuts are a sure sign of the increasingly bitter struggle for orders in which the competing shipyards are now engaged in order to maintain their activities.

The most common form of restructuring in Europe has been to develop alternatives to shipbuilding, such as the construction of offshore structures and repair work; though to a lesser extent it has also taken the form of improving productivity, by modernization in particular. There was no significant increase in capacity as compared with 1981. As already indicated, Japan reactivated some of its mothballed capacity; this trend may even continue now that the shipbuilders cartel set up to administer the production quotas has been disbanded. Of the other countries, South Korea has the most rapidly expanding shipbuilding industry.

4.2 Situation in the Community

4.2.1 Production

In 1981 Community production rose by roughtly 10% compared with 1980 to reach 2.7 million cgrt; however, this was still 48% less than in 1976. Germany enjoyed the hghest growth rate. There were also above-average increases in France and the Netherlands, where the situation has improved slightly. However, the statistics cover ship completions alone and not the work on next year's deliveries; consequently, the slight improvement in 1981 is partly due to the method of calculation applied and not entirely to a genuine revival in activity. Production was still declining in the United Kingdom and also in Belgium, where the decline was accentuated by a lengthy strike at one of the country's two main shipyards.

TABLE 4 - PRODUCTION (Completions) in '000 cgrt

	1976		1978		1979		1980		1981	
	LRS (AWES coeff.)	OECD (1967 coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)
Germany	1468.0	1630.0	1029.1	1059.6	660.7	617.4	596.2	618.5	870.1	922.0
Belgium	139.8	141.0	165.2	154.8	124.8	133.9	129.6	126.7	95.4	95.8
Denmark	560.6	425.0	362.5	378.7	351.4	303.9	382.4	267.9	343.6	363.1
France	672.4	1117.0	430.6	440.2	492.0	473.7	267.8	301.8	443.1	401.9
Greece	xx	xx	xx	xx	xx	xx	xx	xx	5.0	xx
Ireland	20.3	14.0	5.0	-	18.9	17.0	3.0	-	17.0	17.0
Italy*	353.9	314.0	305.2	283.1	248.6	232.1	345.5	287.4	359.1	298.2
Netherlands	940.0	507.0	513.9	455.0	505.1	405.9	249.5	239.6	341.5	255.3
United Kingdom	985.1	824.0	718.4	708.9	579.0	583.9	458.6	513.2	243.0	254.0
EEC	5140.1	4972.0	3529.9	3480.3	2980.3	2767.8	2432.7	2355.1	2717.8	2607.3

* The OECD figures for 1976, 1978 and 1979 cover only the main yards. The 1980 figure includes 253.000 cgrt for those yards.

** Not available.

4.2.2 New orders

New orders for a total of 2.5 million cgrt were placed in 1981 - virtually the same as the previous year's very low level and still considerably below even the reduced capacity level. There was a marked upturn in Germany, though there was less sign of improvement in most of the other countries. The trend in France and Belgium, for example, depends on the source chosen, whilst orders held steady at around the 1980 level in Denmark, the Netherlands and the United Kingdom. However, there was a marked decline in Italy, where orders lagged behind production capacity for the third consecutive year; unless the situation improves, some reorganization of production will be needed there. Elsewhere in the Community, the new orders were, on the whole, high enough to maintain the current rate of production throughout 1982, though many yards have yet to fill their schedules for 1983.

TABLE 5 - NEW ORDERS '000 cgrt

	1976		1978		1979		1980		1981	
	LRS (AWES coeff.)	OECD ('67 coeff.)	LRS (new coeff.)	OECD (new coeff)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.	LRS (new coeff.)	OECD (new coeff.)
Germany	726.1	511.0	535.8	448.6	805.9	1007.0	613.0	619.0	871.1	872.4
Belgium	75.0	54.0	59.4	40.9	270.0	203.7	53.8	138.0	81.4	47.9
Denmark	317.1	220.0	263.8	306.6	391.0	418.9	284.6	349.0	296.4	329.3
France	63.6	37.0	214.1	175.6	487.3	350.8	556.4	353.0	332.9	402.9
Greece	xx	xx	xx	xx	xx	xx	xx	xx	4.5	xx
Ireland	19.2	.	3.0	-	15.0	17.0	1.3	-	18.2	17.7
Italy*	301.5	281.0	330.0	265.6	156.6	56.0	231.2	285.0	144.7	99.1
Netherlands	626.4	259.0	376.5	311.9	240.2	279.8	373.3	323.0	365.2	345.7
United Kingdom	627.6	421.0	230.2	338.5	188.9	305.4	350.2	384.0	410.8	382.9
Tot.CE	2756.6	1783.0	2012.6	1887.7	2554.8	2638.6	2463.8	2451.0	2525.2	2497.9

* The OECD figures for 1976, 1978 and 1979 cover only the main yards; the 1980 figure includes 214.000 cgrt for those yards.

** Not available.

In 1981 the Community's shipbuilders' share of all new orders placed throughout the world rose slightly above the 1980 level. However, since they suffered a small loss of market share in 1980, the 1981 results merely show that they have made up the lost ground. Japan's share shrank from 46.7% to 41.4%, reflecting the extent to which the market in general, and the bulk carrier market in particular, has crumbled since May 1981. However, this is not enough to ease the Community shipbuilders' fears that Japan's predominance might put it at an advantage in the climate of growing uncertainty which prevailed on the market at the start of 1982 and that the already tense situation might be further exacerbated under the new threat of Korea's expansion of capacity.

Table 6 - TREND IN THE MARKET SHARES OF THE MAJOR SHIPBUILDING REGIONS

	1976		1978		1979		1980		1981	
PRODUCTION	'000 cgrt	%	'000 cgrt	%	'000 cgrt	%	'000 cgrt	%	'000 cgrt	%
EC *)	5140.1	23.3	3529.9	21.3	2980.3	21.2	2432,7	19.2	2717,8	19.6
Rest ofAWES **	3145.7	14.2	2303.1	13.9	2127.5	15.1	1499,0	11.9	1733.6	12.5
(Total Western Europe)	8285.8	37.5	5832.9	35.2	5107.9	36.3	3931.8	31.1	4451.4	32.2
Japan	8348.8	37.8	6120.5	37.8	4975.2	35.3	5207.2	41,2	5580.8	40,3
Rest of world	5444.4	24.7	4593.4	27.8	3994.4	28.4	3496.3	27,7	3808.7	27,5
of which Eastern bloc	2755.4	12.5	2132.3	12.9	1392.5	9.9	1213.5	9.6	1394.9	10,1
Total	22028.2	100	16546.7	100	14077.7	100	12635.2	100	13840.9	100
NEW ORDER INTAKE										
EC	2756.6	17.2	2012.6	18.6	2554.8	18.0	2463.8	17,2	2525.2	18.0
RestofAWES **	1903.0	11.9	1367.8	12.7	2179.9	15,3	2049.5	14,3	2000,9	14.2
(Total Western Europe)	4659.6	29,1	3380.6	31.3	4734.6	33.3	4513.3	31.5	4526,1	32.2
Japan	7337.5	45.9	4333.9	40.1	5904.6	41.6	6708.3	46.7	5823.1	41.4
Rest of world	3985.3	25.0	3081.8	28.6	3568.7	25.1	3136.1	21.8	3703,9	26.4
of which Eastern bloc	1896.9	11.9	1146.8	10.6	950,0	6,7	467,9	3.3	1058,0	7.5
Total	15982.4	100	10796,1	100	14207.9	100	14357.5	100	14053,1	100

Source : Lloyd's Register of Shipping

* The 1976, 1979 and 1980 figures do not include Greece.

** AWES : Association of West European Shipbuilders. Members from outside the European Community are the shipbuilders' associations of Finland, Sweden, Norway, Spain and Portugal.

In 1981 the Community's shipowners placed 58% of their orders with the Community's shipyards. This appears an extremely small share in comparison with previous years; however, it does not reflect any change of heart on the part of the shipowners, but simply the impact of Greek accession to the Community. Greek shipowners accounted for 693.000 cgrt of the 2 700 000 cgrt as a whole ordered by the Community's shipowners but ordered only 62 500 cgrt, or 9%, of that total from the Community's shipyards. The other Member States placed new orders for a total of 2 million cgrt, of which 1.5 million cgrt, or 76%, went to the Community's shipyards (between 57% and 65% in the case of the United Kingdom and of the Netherlands, between 79% and 84% in the case of Germany, Ireland and Denmark and as high as 99% to 100% for Belgium, France and Italy). No doubt the percentages would be different were it possible to take account of the orders placed by their open registry subsidiaries; however, no reliable statistics are available for such an assessment.

On the other hand, in 1981 the Community's shipyards increased their export orders, which now account for 38% of all the orders received, the normal average being 32%. Since, however, this is not such a stable market as that provided by the Community's shipowners, this advance made by the Community's industry has not a firm character.

Table 7 - BREAKDOWN OF ORDERS BY FLAG

1000 cgrt	1976			1978		1979			1980			1981		
	National market	Other EC-countries	Non-EC countries	EC Total	Non-EC countries	National market	Other EC-countries	Non-EC countries	National market	Other EC-countries	Non-EC countries	National market	Other EC-countries	Non-EC countries
Orders placed by Community shipowners	64%	5%	31%	83%	17%	73%	5%	22%	63%	7%	30%	53%	5%	42%
	TOTAL: 3027 cgrt			TOTAL: 1994 cgrt		TOTAL: 2028 cgrt			TOTAL: 2381 cgrt			TOTAL: 2665 cgrt		
Orders received by Community shipyards	70%	5%	25%	74%	26%	55%	4%	41%	61%	7%	32%	56%	6%	38%
	TOTAL: 2756 cgrt			TOTAL: 2012 cgrt		TOTAL: 2555 cgrt			TOTAL: 2476 cgrt			TOTAL: 2525 cgrt		

Source : LRS
Note : Greece is included in the Community figures for 1981.

Another noteworthy point is that each Member State's shipyards received remarkably few orders from shipowners in the other Member States. One can therefore deduce that the Community's shipowners generally turn either to one of the shipyards in their own country or else to one in a non-Community country. This phenomenon highlights a clear lack of integration of the individual national markets within the Community.

In 1981 this trend was accompanied by some changes in the types of vessel ordered. The 61 % reduction in world demand for oil tankers was counterbalanced by the 15 % increase in demand for bulk carriers (an extension of the 1980 trend), by the slight revival of demand for cargo vessels (6 % increase) and, to a lesser extent, by the 16 % increase for non-cargo vessels. As already indicated, the renewed interest in bulk carriers was not due to any improvement in the sea transport market but to largely speculative orders encouraged in particular by Japan's revival tactics, though also by the increases in capacity in other countries. What is more, the interest suddenly evaporated over the second half of 1981, though that is not clear from the net results for the whole year.

TABLE 8 - TREND OF NEW ORDERS BY SHIP TYPE

1000 cgrt	Oil tankers	Bulk carriers	Cargo ships	Non-cargo vessels	TOTAL (including non-specified)
1977 world	790.6 (%)	1,783.2 (%)	8,497.3 (%)	2,969.8 (%)	14,040.9 (%)
EC	30.9 (3,9)	75.1 (4,2)	1,76 .4 (20,8)	670 5 (22,6)	2,540.9 (18,1)
1978 world	1,185.4	534.8	6,163.8	2,912.7	10,796.7
EC	56.2 (4,7)	23.6 (4,4)	1,341.3 (21,8)	591.5 (20,3)	2,012.6 (18,6)
1979 world	3,364.8	2,744.9	5,148.	2,949.8	14,207.9
EC	168.1 (5,0)	466.5 (17)	1,172.6 (22,8)	747.6 (25,3)	2,554.8 (18,0)
1980 world	2,960.2	4,325.3	4,780.1	2,291.9	14,357.5
EC	273.7 (9,2)	425.9 (9,8)	1,023.4 (21,4)	740.8 (32,3)	2,463.8 (17,2)
1981 world	1,166.7	4,934.9	4,967.9	2,433.0	14053.1
EC	75.1 (6,4)	487.9 (9.9)	1,342.7 27.0)	606.4 (24.9)	2,525.2 (18.0)

Source : LRS

One noteworthy point is that the Community's shipyards gained ground as regards orders for cargo ships in 1981, whilst losing part of their market share for non-cargo vessels and oil tankers. The breakdown of the distribution of shares of the world market by ship type shows that Community yards achieved a level of orders for oil-tankers and bulk-carriers well below the Community's average share, whilst their share of general cargo ships and non-cargo vessels was well above average. This is further evidence of the Community shipbuilders' bias towards more sophisticated vessels.

4.2.3. Order books

The order book situation in the Community remained relatively static in 1981, whilst there was a 3 % increase worldwide, due mainly to the filling out of Japan's order books. However narrow that gap may appear, it must nevertheless be seen in conjunction with the previous year's far greater decline. Accordingly, the Community's shipbuilding industry has not only failed to pull itself out of its 1980 recession but has actually sunk further.

TABLE 9 - ORDER BOOKS

1000 cgrt	At 31 December 1978		At 31 December 1979		At 31 December 1980		At 31 December 1981	
	LRS	OECD	LRS	OECD	LRS	OECD	LRS	OECD
EC	5087.2	4870	4882.8	4717	4911.9	4799.6	5075.2	4738.7
Rest of AWES	3957.2	3834	3919.7	3932	4398.1	3975.1	4450.5	4213.0
Western Europe	(9044.4)	(8704)	(8802.6)	(8649)	(9310.0)	(8774.7)	(9525.7)	8951.7
Japan	5464.6	4938	5841.6	5004	7297.8	6541.0	7457.7	7225.5
Eastern Bloc	2121.7		2297.3		1964.9		2360.5	
Other regions	6787.9		6627.0		7019.5		7019.5	
TOTAL	23418.6		23568.5		25592.2		26363.4	

In relation to the annual rate of production (see Table 6), the Community's order book, like that of Western Europe in general, appears somewhat better filled than Japan's. This is a constant feature of the order book situation, but it is purely superficial. It results, in fact, from the types of vessel on the order books : since those most commonly built in Europe are more sophisticated, construction takes longer. This in turn means that the vessels concerned stay on the order books longer than less sophisticated vessels and that a large proportion of the work which appears to be in hand has in fact already been completed. What is more, the orders are entered earlier in Europe, where they are recorded as soon as the contracts are concluded, than in Japan, where entry is delayed until official authorization has been granted. Above all, Japanese yards often build the vessels in the same year that the order was received, since the types of vessels which they build and their capacity lend themselves to this approach better than European yards, where this practice is extremely rare. This means that the orders on the books concerning deliveries scheduled in the short term show no more than part of the actual level of activity in Japan, whereas they cover all activity in Europe, or perhaps even slightly more.

TABLE 10 - ORDER-BOOKS IN THE EUROPEAN COMMUNITY (in '000 cgrt)

	L.R.S.					O.E.C.D.				
	Completions in 1981	Total order book at 31.12.'81	For delivery in 1982	1983	1984	Completions in 1981	Total order book at 31.12.81	For delivery in 1982	1983	1984
Germany	870.1	994.0	688.7	305.3	-	922.0	1105.4	806.6	298.8	-
Belgium	95.4	311.5	184.2	109.3	18.0	95.8	257.5	249.6	7.9	-
Denmark	343.6	618.9	321.9	249.8	47.2	363.1	775.1	326.7	336.0	112.4
France	443.1	1138.2	525.5	336.9	275.8	401.9	942.9	396.9	312.1	233.9
Greece	5.0	245.4	175.6	69.8	-	xx	xx	xx	xx	xx
Ireland	17.0	19.3	1.2	18.1	-	17.0	17.7	-	17.7	-
Italy	359.1	427.3	365.2	54.3	7.8	298.2	347.4	238.7	98.4	10.3
Netherlands	341.5	551.7	370.3	158.9	22.5	255.3	524.9	389.5	113.4	22.0
United Kingdom	243.0	768.9	570.0	185.4	13.5	254.8	767.8	560.8	207.0	-
Community	2717.8	5075.2	3202.6	1487.8	384.8	2607.3	4738.7	2968.8	1391.3	378.6

xx : Not available.

In the United Kingdom and Denmark order books are now somewhat fuller. On the other hand, they are slimmer in Belgium and particularly in Italy, where there has been a relatively heavy slump with new orders lagging far behind production. The Table set out above suggests that the level of activity is likely to be higher in 1982 than in 1981, except in Germany where there will probably be a decline. However, Community production in 1982 is unlikely to rise to the 3.2 million cgrt suggested by this schedule. Experience has shown that there is normally a delay between the deliveries forecasted on the basis of the entries in the order books and the deliveries actually being made. What is more, in view of the weak market at the end of 1981 and the difficult predicament of some shipbuilders and shipyards, one cannot rule out certain delays in delivery which could in turn generate a slight buildup of activity. The 1983 forecasts clearly show that there are still gaps in the work schedules of the Belgian, German, Italian and Netherlands yards. In view of the usual differences from one yard to another, that means, in other words, that some will be short of work during the first half of the year unless new orders come in soon.

4.2.4. Employment

In 1981, for the first time in six years, there was no net reduction in the workforce in the Community as a whole, this suggests that numbers are now more or less in line with the likely level of activity. There have been some movements of various kind in some Member States, though on the whole any change remained commensurate with the level of activity. Jobs were shed in Belgium and Italy, while the situation remained stable in Denmark, France, Ireland and the Netherlands. More men were taken on in Germany and the United Kingdom, though the workforce in both those countries is still smaller than in 1979 ; both have suffered cuts sharper than the Community average since the onset of the crisis.

TABLE 11 - EMPLOYMENT IN SHIPBUILDING IN THE COMMUNITY (NEW BUILDING)

(at the end of the year)

	1975	1978	1979	1980	1981 **
Belgium*	7467	6400	6293	6523	5498
Denmark	16630	12000	9900	11400	11350
France	32500	25300	23000	22200	22200
Germany	46839	31113	27369	24784	26521
Greece	.	.	.	.	3393
Ireland	869	840	750	750	762
Italy	25000	20000	19000	18000	17000
Netherlands	22662	17540	14540	13100	13100
United Kingdom	54550	41050	31200	24800	25345
Total	206 517	154 243	132 052	121 557	125 169

(Table compiled from national sources)

* Revised series.

** The 1981 figures include Greece, the data being based on the estimates made by the Greek industry itself. According to them, the Greek workforce numbered 2.316 in 1975 and 2.616 in 1980.

Thus, employment in the Community's shipbuilding industry has fallen by 40 % since the start of the crisis, though production has contracted by as much as 48 %. This difference is due mainly to the fact that shedding jobs is not the only means of adjusting the level of employment ; another method used has been to cancel overtime, a practice common enough in times of full employment. What is more, shipyards must keep on a minimum number of workers, irrespective of how much work there is for them, in order to remain operational ; this in turn ensures that the level of unemployment does not fall as sharply as the level of activity.

Although no full details of the deployment of the workforce are available, it nevertheless appears that some workers were transferred to other activities in 1981, and in particular to the construction of offshore structures. At the same time some yards have occasionally found it difficult to recruit skilled workers, with factors such as mobility, job security and the lack of adequate vocational training lying at the root of the problem.

At the Community level, in 1981 France and Italy received aid from the European Social Fund to help them improve the occupational and geographical mobility of their workforce. Some 4.000 workers were affected. Further payments of the aid granted to Germany and the United Kingdom in 1980 were also made ; this aid is to be spread over several years.

In 1981 the Commission also started its five-yearly review of the general principles and operation of the European Social Fund with a view to adapting the Fund to the marked deterioration in the social situation over the last few years. Proposals are to be put to the Council in time for the new arrangements to enter into force on 1 January 1983.

The European Regional Development Fund provided a total of 580 000 ECU for three separate projects, under its general aid scheme. As for the operations under the non-quota section, at the close of 1981 the finishing **touches** were applied to the special action programme for the United Kingdom under which aid can be disbursed to regions particularly hard hit by the shipbuilding crisis ; the programme was officially submitted to the Commission in April 1982.

4.3. Market prospects

The forecasts of modest, though shaky, growth in world trade in 1982 have been met by scepticism from the economic operators engaged in the sea transport market. Come what may, the overcapacity of the fleet is bound to continue to depress the market, all the more so since the various levels of under-utilization of the fleet and some of the recent rash investments outlined in Section 3 have tended, if anything, to compound the problem.

Recent developments have forced European and Japanese trade organizations alike to revise their forecasts of world demand ; their conclusions have yet to be published. However, the first indications are that it is likely to take longer than expected to restore the balance between supply and demand, particularly in the case of oil tankers and bulk carriers. Consequently, the earlier forecasts are considered too high, at least those up to the mid-1980s.

All the evidence suggests that there is no chance of a real revival in the shipbuilding industry in the first half of the 1980s. The shipyards cannot fail to take account of the likelihood of a protracted crisis in their decisions to tailor the industry to the likely market.

4.4. Structural developments in the shipbuilding industries of the Member States

Germany

Two slipways were closed down in the course of 1981. German shipyards continued their efforts to take every chance to diversify, specialize and innovate and also to hold down the excessive increases in costs brought about by under-utilization of capacity in an effort to keep their costs down closer to the actual price level. Shipbuilding itself now provides no more than 50 % of the average yard's business ; its place has been taken mainly by repair work, refitting and the construction of offshore structures. Shipbuilding in Germany has also become more specialized and innovatory.

Belgium

One of the two main shipyards was paralysed by an all-out strike for four months of 1981, while the other was in such difficulty at the end of the year that it was declared bankrupt. The authorities are now considering a restructuring plan.

Denmark

There were no major structural changes in the Danish shipbuilding industry in 1981. The Danish industry continued to concentrate on modernization and diversification. The efforts to diversify focused mainly on the construction of offshore structures and repair work, though there have been no significant new developments.

France

In 1981 the French authorities revised their shipbuilding policy within the broader framework of their general plan for the maritime industries, based on the complementarity and solidarity of shipping, shipbuilding and port activities. Their policy is to support production by keeping aid at its previous level and to hold the workforce steady at the 1981 level. Plans have also been made to diversify by branching into new activities, which seem likely to cover the trades ancillary to shipbuilding, (i.e. offshore constructions, floating plants, refitting of vessels and, to a certain degree, naval shipbuilding). Finally, the French Government has decided to strengthen the basic structure of its industry, in the first instance by merging three of the five leading shipyards.

Greece

No sufficiently representative details of the structural changes in the Greek shipbuilding industry are available at this stage.

Ireland

No major structural changes occurred in the Irish shipbuilding industry in 1981.

Italy

Inevitably, the declining work-load forced a number of shipyards to shed capacity by temporarily laying off workers or by permanent redundancies. One yard closed down altogether. The lack of orders continues to give cause for concern. No progress was made towards diversifying, for instance by building military vessels or doing repair work. The authorities are now preparing a new restructuring plan, which, with the support of the associated aid programme, should help to provide secure employment and to stabilize capacity in 1982. It will be put to the Italian Parliament for approval.

Netherlands

There was no major change in the capacity of the Netherlands shipbuilding industry in 1981. The future objectives of the recovery plan have already been set, with top priority being given to improving the competitiveness of the industry, primarily by means of modernization and investment. The favourite form of diversification has been to construct offshore structures, though progress in this direction remained slow in 1981. The dredger yards in particular have been modernizing their production facilities in an effort to increase productivity.

United Kingdom

Two construction docks and one slipway were closed down in 1981. Two relatively large yards turned their main activities to the construction of offshore structures, which will lead to the withdrawal of three further docks away from shipbuilding in 1982, once the diversification has been carried through. The efforts to increase productivity continued, and have already brought an estimated increase of 15 %.

Summing-up

Throughout the Community the shipbuilding industry is continuing its efforts to adapt to the new market conditions. The contraction of production capacity is now drawing to a close. Although one cannot gauge the exact production capacity, at a broad estimate it has been reduced by approximately 25 % since 1976, though even that still leaves some 30 % more capacity than needed at the current level of activity. The industry has continued, and indeed stepped up, its efforts to restore a healthier situation notably by improving productivity and diversification, but progress has been slow. Some countries have found it more difficult than others to implement their restructuring programmes, partly because of the serious social problems sometimes caused and partly because of the limited scope for channelling production towards new activities.

5. Final considerations

With the fleets still overtonnaged and uncertainty about the economy still widespread, the outlook for the shipbuilding industry can be expected to remain gloomy for some time to come. The Commission can only conclude that 1982 has brought virtually no sign of any improvement in the situation of the Community's shipyards in the short term. Under the circumstances the Commission must continue to advocate the approach which it recommended at the onset of the crisis and which it stressed in its previous reports. As long as the crisis persists, the Community must continue its efforts to adapt its shipbuilding industry and in particular to improve its competitiveness and structure. In view of the worldwide dimensions of the market and of the problems which it is now facing, it is also necessary that the Community can count on the solidarity and responsibility of its leading partners on the market lest it should be forced to shoulder more than its fair share of the burden.

Consequently, as regards external relations, the Community still attaches prime importance to sound international cooperation in the shipbuilding sector, through the OECD in particular. In 1981, it was disappointed and alarmed by Japan's decision to relax its previous policy of voluntary restraint, even though the general situation was still difficult. On

behalf of the Community, the Commission has therefore - in particular in OECD Working Party N° 6 on Shipbuilding - repeatedly requested Japan to revert to stricter fulfilment of its earlier commitments made there. Although Japan has expressed its good intent, its attitude nevertheless raises doubts as to the share of the burden that it is prepared to accept. However, no equitable solution will emerge until the world's leading shipbuilder adopts a policy compatible with restoring the balance between supply and demand.

As regards internal policy, the Commission is endeavouring to underpin the reorganization of the industry by various measures.

For instance, the Fifth Directive on aids to shipbuilding entered into force on 28 April 1981*. It takes full account of the changes in the situation and puts the emphasis on the importance of improving competitiveness as a criterion if State aid is to be approved.

To this aim the Commission is also helping to finance a pilot study on the prospects for standardizing throughout the Community various components used whilst building ships, mainly in the hope of reducing costs.

At the same time the Commission is still considering measures that could stimulate demand for ships to be built at Community's shipyards, for example by temporarily improving the financial terms offered to the Community's shipowners as an incentive for them to place more of their orders in the Community.

Finally, the Commission is engaged in a constant dialogue with all the parties concerned ; action programmes cannot be a success unless all concerned help to devise its own measures consistent with the ultimate objective of improving its competitiveness.

* OJ L 137, 23 May 1981.

APPENDIX

1. The tables giving the trend of completions, new order intake and order books in the Member States' shipyards are taken from two different sources, the OECD and Lloyd's Register of Shipping (LRS).

   Where the Member States are concerned, the OECD statistics, constitute an official source but they provide a more limited range of data, there are sometimes differences of approach as regards the moment when an order can be considered being booked and as regards the classification of vessels, they contain breaks in the coefficients used for conversions into cgrt and do not permit worldwide comparisons to be made.

   The figures produced by LRS are not infallible either. However, given that they present a wider range of data and that - over a period of time - the figures in cgrt are more comparable, it has been considered preferable to use this source for commentaries as the objective is to present homogeneous references and, moreover, they are being used worldwide by those concerned with these matters. The discrepancies between the two sources originate mainly from different thinking about the moment when an order is regarded as being definite, in the classification of vessels and in the coefficients for conversion into cgrt concerning the years 1976 and 1977. Despite certain differences which can sometimes arise from this, the two sets of data show trends which generally point in the same direction. Since the divergences between the two sources are only random, and the present report ist essentially concerned with indicating the main trends, the reference to only one source is generally of no consequence.

2. cgrt = compensated gross registered ton, a measurement 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 cgrt calculations were agreed upon by the OECD in 1977. The LRS figures for 1976 are based on AWES coefficients, which were the basis for the new OECD coefficients without being completely comparable; OECD figures for 1976 are however based on OECD 1967 coefficients, which diverge markedly from the new coefficients for certain types of ship. This explains why certain 1976 OECD values are not at all comparable with the other series.