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REPORT ON THE STATE OF THE
SHIPBUILDING INDUSTRY IN THE COMMUNITY
(SITUATION AS AT 1 JANUARY 1981)

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Summary

This document is the third report presented by the Commission to the Council on the development of the crisis facing the shipbuilding industry.

In some sea transport sectors, particularly oil tankers, the maritime economy was depressed in 1980, leading to a lack of demand and, consequently, a lack of new orders. The same level of activity was maintained in some other segments of the sea transport market and demand was stable following a fortuitous reduction in carrying capacity. Overall, however, new orders for vessels remained stagnant at the very low level of previous years and such orders being concentrated in Japan to the detriment of the European shipyards. World shipbuilding production continued to drop in 1980; this drop was more marked in the Community, whereas Japanese production actually increased slightly.

The reversal of the trend in Japan is one of the worrying features which developed during 1980, since it does not correspond to a basic change in the market conditions and gives rise - by causing future requirements to be brought forward - to Japanese encroachment on the markets of other countries, particularly European countries, whose market share is thus further retracting.

The 18% drop in production in the Community was accompanied by an 8% drop in employment, bringing the number of workers who have lost their jobs since the onset of the crisis to 84 000, i.e. some 40%.

The depressed general economic climate and the latent overcapacity would seem to indicate that the shipbuilding industry will not recover in the near future. The Community shipbuilding industry must therefore continue its efforts to adjust to this state of affairs, in particular by improving its competitiveness, and the public authorities must take the most appropriate supporting measures.

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REPORT ON THE STATE OF THE SHIPBUILDING INDUSTRY IN THE COMMUNITY

Situation as at 1 January 1981

1. Introduction

The Council Resolution of 19 September 1978* called on the Commission to present periodical reports on the state of shipbuilding. This document is the Commission's third such report. Like the previous reports,** it seeks to set out the state and prospects of the shipbuilding market.

The shipbuilding industry did not improve in 1980 and some promising signs which appeared in 1979 faded: apart from the few sections of the market where the same level of activity has been maintained, overall demand for vessels has continued to stagnate. The tendency to operate the fleets' less rationally, a phenomenon which became marked in 1979, increased even further in 1980; this - by neutralizing most of the existing overcapacity - indirectly helped the market to avoid a slump which would otherwise have been considerable.

Factor such as this reveal the precariousness of the market situation which, together with economic and political contingencies, particularly in the energy sector, gives rise to considerable uncertainty about future trends. The assessments and forward trends which are set out in this report and which tend to confirm that the crisis in the industry is not yet over and has not even started to die away reflect the trend deduced on the basis of the market mechanisms without taking into consideration the possibilities of external disturbances.

The trend in the industry for 1981 is not, therefore, auspicious. The level of production has dropped as low as that of new orders, and so no further significant reductions can be expected. Efforts to increase competitiveness should not be relaxed, this being the only means of guaranteeing the shipbuilding industry in the future a place on the small market.

* OJ-C 229 of 27 September 1978.

** Supplement 7/79 to the Bulletin of the European Communities; doc. COM(80) 443 final.

2. General economic background

The general economic situation deteriorated in 1980; at the end of the year this deterioration was more acute than expected. The growth in the Community's gross domestic product is estimated to have been no more than 1.3% in 1980 compared with 3.4% in 1979. Both public and private demand dropped.

Affected by the stagnation of general economic activity, the volume of world trade increased by only 1.9% in 1980 compared with 6.9% in 1979.

According to the latest Commission forecasts, which have had to be revised downwards, the rate of growth expected for GDP in 1981 is -0.6% for the Community. The recession should bottom out in the second quarter and a slight improvement is expected in the second half of the year. Trends within the OECD as a whole are slightly better (an increase of around 1%), mainly because the situation in Japan is expected to be distinctly more favourable.

This state of affairs will affect the development of international trade, which is expected to increase by 0.5% in 1981 as a whole. Such a very low growth rate will inevitably affect the sea transport market, since a major part of world trade is carried by sea.

3. Trends in the sea transport sector

The encouraging trends in the sea transport market in 1979 all weakened in 1980, although special circumstances prevented the more marked deterioration which would normally have resulted from the imbalance between supply and demand for tonnage. The rate of increase in gross tonnage carried at sea tailed off, falling from 7.5% in 1979 to -3.5% in 1980; the fleet utilisation rate expressed in tonne-miles even dropped by some 5.5% in 1980, compared with a 4% increase the previous year; the level of sea transport in tonne-miles has thus reached its lowest point since 1975.

On the other hand, the world fleet again enjoyed a slight increase in 1980 even if deliveries were to a large extent offset by scrappings and losses which did not differ significantly from 1979.

These main trends can be seen in the following table.

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	11.887	112	356,1	152	6.050	117	268,5	131
1978	10.846	105	352,9	151	6.388	123	279,8	136
1979	10.659	107	346,2	148	7.016	135	291,8	142
1980 p	9.570	94	335,6	143	7.140	138	307,1	149

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

This table also shows that the trend varied considerably according to market sector.

For example, in the oil-tanker sector, demand expressed in tonne-miles dropped by 10% as a result of several factors, principally the 7% reduction in the amount of oil consumed by the OECD countries, the fact that stocks had been at their highest level beforehand, the increase in oil production in those fields closest to the major centres of consumption and the drop of at least 13% in OPEC oil exports. This affected the freight rates, especially for large oil tankers, but its effects were mitigated by the fact that the increased tanker tonnage available did not fully affect the actual transport market, because some of these vessels were withdrawn from the market and used for storage and because an additional reduction in service speeds - in an attempt to restrict the consumption of fuel, the price of which increased considerably - reduced the efficiency of using these vessels to an even greater extent than in 1979.

The assignment of combined carriers to the dry bulk market thus helped to restrict the development of a market surplus capacity in oil tonnage, though this is still latent. Specialists estimate that this transfer accounts for 7 million dwt, that the additional tonnage used for storing crude oil amounts to 10 million dwt and that the tonnage absorbed by an additional reduction in speed amounts to 8 million dwt. A total of 9.7 million dwt was scrapped compared with 8.6 million the previous year.

All these factors explain why, paradoxical though it may seem, the laid up tonnage dropped slightly in 1980, as the following table shows:

Table 2 - 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
	April	268	5.542	9.417
	July	268	6.767	12.249
	October	233	5.371	9.512
1981	January	229	4.840	8.288

Source: Institut für Seeverkehrswirtschaft, Bremen

In the dry cargo sector, traffic in tonne-miles did not drop as a whole, remaining at approximately the same level as in 1979. In fact, the trend varied considerably with the commodities. For example, seaborne transport of coke and iron ore fell off in line with the fluctuations in activity in the steel industry, while the transportation of cereals and coal increased and the distances travelled were also longer.

Despite the general virtual stagnation in the carriage of dry bulk cargo, the increase in transport capacity resulting from the increase in the bulk carrier fleet, due not only to deliveries but also to the above-mentioned transfer of combined vessels, did have the adverse effects on freight rates which might have been expected; instead, freight rates remained fairly stable. The significant reduction in the efficiency of their use following the blockage of a large amount of tonnage owing to port congestion is the main factor

behind this phenomenon. Thus, in the course of the year, there were bottlenecks in ports of unloading for iron ore, of loading for cereals, of unloading for coal and, finally, of loading for coal; the delay in loading coal reached 100 days in the American ports at the end of the year. These delays triple the capacity requirement for this sector and, in the opinion of some experts, artificially mobilize transport capacity of some 15-20 million dwt.

A large proportion of this capacity may be regarded as reserve tonnage, with the result that, at some time in the future, it might rapidly lead to marked overcapacity on the market when port operations return to normal, since short-term sea transport trends - which are tending towards stagnation, in keeping with the trend in general economic activity - do not seem to suggest that it will be used, barring unforeseeable developments. An additional risk of overcapacity results from the uncertainty surrounding the maintenance of firm trends in grain transport.

In many cases, difficulties have continued in the liner trade as freight rates could be increased only slightly because of the keen competition in these markets, with the result that the increase in operation costs, particularly with regard to bunkers, could not be covered. Some operators have in fact been forced to reorganize in order to cope with this situation; some have trimmed their operations considerably, or gone out of business altogether, while others have been taken over by large groups.

The decrease in the size of the fleet flying to flags of the Member States of the Community of Nine - 3.9 million grt in 1979 - slowed down in 1980 to 1.5 million grt, i.e. 2%. To be sure, the overall figures for this trend will be altered by the accession of Greece, since the increase in the Greek fleet tends to offset nearly all of this loss, but this does not eliminate specific problems at national level in some Member States.

The following table illustrates this state of affairs.

TABLE 3 - WORLD AND COMMUNITY FLEETS					
All merchant ships	World '000 grt	Community of Nine '000 grt	% of world figures	Greece '000 grt	% of world figures
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
1.7.1980	419 910,7	71 644,1	17,1	39 472	9,4
<u>Commercial trading types only</u>					
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
1.7.1980	390 971,8	66 922,0	17,1	38 687	10,0

Source: Lloyd's RS

4. Situation of the shipbuilding industry *

4.1. General trends

The overall situation of world shipbuilding did not improve; the volume of new orders stagnated at the low level of 1979, and production dropped by a further 10%, reducing it to less than the annual rate of orders and thus aggravating the situation in this respect. These pointers show that, in general, the crisis is still with us and that the general recovery has not yet begun, despite what some assessments would tend to suggest.

To be sure, the situation of the Japanese shipyards in particular has tended to improve, which means, in view of the stagnant market, that the situation in other countries, particularly in Europe,

* To understand and interpret the units and sources of information used in this section of the report, the reader should consult the Appendix to this report. It should be borne in mind in particular that the observations made are based on cgrt figures supplied by Lloyd's Register of Shipping (LRS).

has suffered more from the squeeze evident from the world average. This can be seen from the sharing out of the market between the various regions which has developed to the detriment of the European shipbuilding countries. Japan's share of new orders worldwide, expressed in cgrt, thus increased from 41.6% to 46.7% between 1979 and 1980.

Of the factors behind this trend, the low exchange rate of the yen definitely played a major role for most of the year, helped by the fact that Japan had released the brake which it had applied to contain its shipbuilding within limits compatible with the slump in the market; it was mainly a question of increasing the capacity utilization rates and boosting the funds for financing orders on both the internal and foreign market. Even though the advantage derived from the exchange rate of the yen had disappeared by the end of the year, these factors still prompted a very lively flow of orders, leading to a considerable concentration of orders - particularly for oil tankers and bulk carriers - in Japanese shipyards, but also removing from the future level of demand some of the orders which were thus triggered prematurely.

The restructuring operations, involving the shedding of capacity, have been completed in Japan; in Europe, they were generally continued (wherever they had not been completed), but the circumstances described above are not conducive to carrying them out smoothly.

Contract prices rose in general in 1980 by an estimated 25% to 30%, particularly in the case of oil tankers, as a result of - among other things - the combined impact of the rise in prices in yen and the rise in the value of the yen. Despite this price rise, prices did not reach a high enough level to be remunerative for European shipyards.

4.2. Situation in the Community

4.2.1. Production

In 1980, Community production amounted to 2.4 million cgrt, a drop of 18.4% compared with 1979 and 52% compared with 1976.

TABLE 4 - PRODUCTION (completions) '000 cgrt								
(see footnote 1 on p. 7 for details on coefficients)	1976		1978		1979		1980	
	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	165,2	154,8	124,8	133,9	129,6	131
Denmark	560,6	425,0	362,5	378,7	351,4	303,9	382,4	268
France	672,4	1117,0	430,6	440,2	492,0	473,7	267,8	302
Germany	1468,0	1630,0	1029,1	1059,6	660,7	617,4	596,2	618
Ireland	20,3	14,0	5,0	-	18,9	17,0	3,0	-
Italy *	353,9	314,0	305,2	283,1	248,6	232,1	345,5	320
Netherlands	940,0	507,0	513,9	455,0	505,1	405,9	249,5	240
United Kingdom	985,1	824,0	718,4	708,9	579,0	583,9	458,6	514
Community	5140,1	4972,0	3529,9	3480,3	2980,3	2767,8	2432,7	2393

* The OECD data for 1976, 1978 and 1979 relate only to the main yards. The 1980 figure includes 253 000 cgrt for these yards.

Production did not fall by the same amount in all Member States; the decrease largely reflected the structural changes made.

4.2.2. New orders

In 1980, production closely matched the level of new orders, indicating that as regards the latter balance has been established at least for the time being, although at a very low level remaining even considerably below the reduced capacity level. However, in Italy and the United Kingdom, the annual rate of new orders deviated somewhat from that of production; if maintained, this phenomenon could lead to a readjustment of production. In several other Member States, e.g. Germany, France and the Netherlands, new orders were sufficient to guarantee the current rate of production overall.

TABLE 5 - NEW ORDERS '000 cgrt								
	1976		1978		1979		1980	
	LRS (AWES coeff. 1976)	OECD 1967 coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)	LRS (new coeff.)	OECD (new coeff.)
Belgium	75,0	54,0	59,4	40,9	270,0	203,7	53,8	138
Denmark	317,1	220,0	263,8	306,6	391,0	418,9	284,6	349
France	63,6	37,0	214,1	175,6	487,3	350,8	556,4	353
Germany	726,1	511,0	535,8	448,6	805,9	1007,0	613,0	619
Ireland	19,2	-	3,0	-	15,0	17,0	1,3	-
Italy (*)	301,5	281,0	330,0	265,6	156,6	56,0	231,2	285
Netherlands	626,4	259,0	376,5	311,9	240,2	279,8	373,3	323
United Kingdom	627,6	421,0	230,2	338,5	188,9	305,4	350,2	384
Community	2756,6	1783,0	2012,6	1887,7	2554,8	2638,6	2463,8	2451

(*) The OECD data for 1976, 1978 and 1979 relate only to the main yards. The figure for 1980 includes 214 000 cgrt for these yards.

One cause for concern regarding the Community shipyards was that they were unable to maintain their market share, whatever world market indicator is taken into account. Between 1979 and 1980, the Community's share of new orders dropped from 18% to 17% and its share of production and order books fell from 21% to 19%.

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

	1976 '000 cgrt	%	1978 '000 cgrt	%	1979 '000 cgrt	%	1980 '000 cgrt	%
COMPLETIONS								
EC - 9	5140,1	23,3	3529,9	21,3	2980,3	21,2	2432,7	19,2
Rest of AWES *	3145,7	14,2	2303,1	13,9	2127,5	15,1	1499,0	11,9
(Western Europe)	(8285,8)	(37,5)	(5832,9)	(35,2)	(5107,9)	(36,3)	(3931,8)	(31,1)
Japan	8348,0	37,8	6120,5	37,0	4975,2	35,3	5207,2	41,2
Rest of the world	5444,4	24,7	4593,2	27,8	3994,7	28,4	3496,3	27,7
of which Eastern bloc	2755,4	12,5	2132,3	12,9	1392,5	9,9	1213,5	9,6
TOTAL	22078,2	100,0	16546,7	100,0	14077,4	100,0	12635,2	100,0
NEW ORDER INTAKE								
EC - 9	2756,6	17,2	2012,6	18,6	2554,8	18,0	2463,8	17,2
Rest of AWES *	1903,0	11,9	1367,8	12,7	2179,9	15,3	2049,5	14,3
(Western Europe)	(4659,6)	(29,1)	(3380,6)	(31,3)	(4734,6)	(33,3)	(4513,3)	(31,5)
Japan	7337,5	45,9	4333,9	40,1	5904,6	41,6	6708,3	46,7
Rest of the world	3985,3	24,9	3081,8	28,6	3568,7	25,1	3136,1	21,8
of which Eastern bloc	1896,9	11,9	1146,8	10,6	950,0	6,7	467,9	3,3
TOTAL	15982,4	100,0	10796,3	100,0	14208,0	100,0	14357,5	100,0

Source : Lloyd's Register of Shipping

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

Although the Community's shipyards suffered a drop in new orders in 1980, the volume of orders placed by Community shipowners increased in comparison with 1979. The additional orders all went to shipyards in non-Community countries. In 1980, these shipyards received 30% of the total volume of orders placed by Community shipowners, compared with an average of 20% in the previous two years. These figures would be even higher were it possible to take account of all their orders for open registry vessels, but there are no statistics on this subject.

The table below illustrates this development.

TABLE 7 - BREAKDOWN OF ORDERS BY FLAG												
1000 cgrt	1976			1978		1979			1980			
	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	
Orders placed by Community shipowners	64%	5%	31%	83%	17%	73%	5%	22%	63%	7%	30%	
	TOTAL: 3027 cgrt			TOTAL: 1994 cgrt		TOTAL: 2028 cgrt			TOTAL: 2381 cgrt			
Orders received by Community shipyards	70%	5%	25%	74%	26%	55%	4%	41%	61%	7%	32%	
	TOTAL: 2756 cgrt			TOTAL: 2012 cgrt		TOTAL: 2555 cgrt			TOTAL: 2476 cgrt			

Source: LRS

The Community's shipyards also suffered a drop in export orders, with the result that, despite the abovementioned tendency for Community shipowners to order a higher proportion of vessels from outside the Community, these owners still accounted for 68% of the orders received by the Community shipyards, which is the average for the last few years.

This trend was accompanied by changes in the types of vessel ordered; this, together with the increased competition from Japanese shipyards, is one of the reasons for the lack of success of the European shipyards.

Table 8 shows the trend of world orders by major ship types.

As these figures indicate, demand remained at the 1979 level mainly because of the rise in the number of orders for bulk carriers. The renewed interest shown for these vessels reflects the situation of the sea transport market, which was described above, and which also reveals the precariousness of this development. The speculative anticipatory action in the face of the rise in prices and in the yen exchange rate probably helped to accelerate orders for these vessels.

The decline in orders for oil tankers and cargo ships reflects the trends on the sea transport markets served by these types of vessel. However, in the latter category, there has been an increase in orders for vessels to carry liquefied gas and chemicals.

TABLE 8 - TREND OF NEW ORDERS BY SHIP TYPE

1000 cgrt	Oil tankers	Bulk carriers	Cargo ships	Non-cargo vessels	TOTAL
<u>1977</u> world	790,6 (%)	1.783,2 (%)	8.497,3 (%)	2.969,8 (%)	14.040,9 (%)
EC	30,9 (3,9)	75,1 (4,2)	1.764,4 (20,8)	670,5 (22,6)	2.540,9 (18,1)
<u>1978</u> 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)
<u>1979</u> world	3.364,8	2.744,9	5.148,4	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)
<u>1980</u> 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)

Source: LRS

Demand for non-cargo vessels shrunk by 22%, and yet Community shipyards had the same level of orders for this type of vessel as in 1979. As a result, their share of the world market increased.

The share won by Community shipyards was slightly less than the world average for orders of oil tankers and bulk carriers, while their share of orders for cargo ships was slightly above the world average.

Despite the fact that Community shipyards managed to maintain their position on the market for general and specialized cargo ships, the general decline on this market is a particular source of concern for the Community shipbuilding industry since this type of vessel is one of its main lines of production.

4.2.3. Order books

The order book situation remained stable in the Community, compared with an increase of 8.6 % worldwide, due mainly to the 25 % increase in Japan.

Table 9 - ORDER BOOKS						
1000 cgrt	At 31 December 78		At 31 December 79		At 31 december 80	
	LRS	OECD	LRS	OECD	LRS	OECD
EC	5087,2	4870	4882,8	4717	4911,9	4799,6
Rest of AWES	3957,2	3834	3919,7	3932	4398,1	3975,1
Western Europe	(9044,4)	(8704)	(8802,6)	(8649)	(9310,0)	(8774,7)
Japan	5464,6	4938	5841,6	5004	7297,8	6541,0
Eastern Bloc	2121,7		2297,3		1964,9	
Other regions	6787,9		6627,0		7019,5	
TOTAL	23418,6		23568,5		25592,2	

The stabilization of the order book figures in the Community is due to the reduction in production. Compared with the annual rate of production, the Community's order book, like that of the European countries in general, appears to be somewhat larger than in Japan. This state of affairs, which is a constant feature where order books are concerned, is, however, only superficial. It results, in fact, from the types of vessel on these order books : as those built most frequently in Europe are more elaborate, construction takes longer. This means that these vessels are shown on the order books for a longer time than are less sophisticated vessels and that a large proportion of the work which appears to be in hand has already been carried out; furthermore, the order booking procedure is faster in Europe, where it takes place as soon as the contracts are concluded, than in Japan where it does not take place until official authorization has been given. Furthermore orders are often carried out in Japan in the same year in which they are concluded since the types of vessel built and the capacity availabilities lend themselves to this better than in Europe; this rarely happens in Europe and it means that the deliveries planned for the short term - as shown by the order book entries - are no more than a partial indication of activity in Japan, whereas in Europe they cover all activity, or even more than this.

Table 10 - ORDER BOOKS IN THE EUROPEAN COMMUNITY

1000 cgrt	L R S					O E C D				
	Completions 1980	Total order books at 31/12/1980	For delivery in			Completions 1980	Total order books at 31/12/1980	For delivery in		
			1981	1982	1983			1981	1982	1983
Germany	596,2	950,9	749,6	182,7	18,6	618	1173,7	968,7	204,5	0,5
Belgium	129,6	331,7	225,8	105,9	-	131	338,3	165,2	159,7	13,4
Denmark	382,4	669,3	369,8	239,8	59,7	268	735,2	362,6	297,0	75,6
France	267,8	1193,7	662,4	300,4	230,9	302	923,0	575,0	174,5	173,5
Ireland	3,0	17,8	17,8	-	-	-	17,0	17,0	-	-
Italy	345,5	639,8	469,7	150,3	19,8	320	550,2	301,7	211,3	37,2
Nether- lands	249,5	493,7	336,9	142,3	14,5	240	420,8	285,3	115,6	19,9
United Kingdom	458,6	615,0	401,0	188,0	26,0	514	641,4	365,2	247,8	28,4
Community	2432,6	4911,9	3233,0	1309,4	369,5	2393	4799,6	3040,7	1410,4	348,5

The United Kingdom has the slimmest order book and, depending on the programme of deliveries, could still suffer a slight drop in production in 1981. In the other countries, the deliveries schedule is such as to ensure that the current level of production is maintained. However, it is unlikely that Community production will rise to 3 million cgrt in 1981 as this schedule suggests. Experience has shown that there is normally a time lag between the forecasts of deliveries based on order books and the deliveries actually made, partly because of the slowness of some shipowners to take possession of the vessels they have ordered, the modifications they make during construction, and the tendency for shipyards receiving few orders to spread out the work they do have in order to avoid excessive fluctuations or gaps in their workload.

4.2.4. Employment

In 1980, the numbers employed in shipyards on the building of non-military vessels fell by about 8 %, i.e. 10 000 persons, compared with the previous year. This reduction is less than that in 1979 and lower than the drop in production. The workforce has fallen most in the United Kingdom, whereas it has tended to stabilize in Ireland and Belgium and the beginning of an increase was observed in Denmark.

Table 11 - EMPLOYMENT IN SHIPBUILDING IN THE COMMUNITY				
	(NEW BUILDING)		(at the end of the year)	
	1975	1978	1979	1980
Belgium	6138	5140	5100	5162
Denmark	16630	12000	9900	11400
France *)	32500	25300	23000	22200
Germany	46800	32400	27369	24784
Ireland	869	840	750	750
Italy	25000	20000	19000	18000
Netherlands	22662	17540	14540	13100
United Kingdom	54550	41050	31200	24800
Total	205154	154270	130859	120196

(Table compiled from national sources)

*) revised series

Although employment has fallen considerably since 1976 - by around 40 % - production has dropped even more - by more than 50 %. This difference is due mainly to the fact that the change in employment primarily took the form of the abolition of overtime, which was still at a high level at the start of the crisis, and the need for the shipyards to keep on a minimum number of workers, irrespective of how much work there was for them, in order to remain operational. In this connection it should be noted that recourse to short-time working declined in 1980, though more rapidly in some countries than in others.

This tends to indicate that staff reorganization is generally near completion and that, except in unforeseen circumstances or special cases, the rate of reduction should tail off in future. Of course, there may still be considerable differences from one firm or region to another. Information is not sufficiently complete to allow us to conclude how jobs were shed in 1980. It would appear that some of these jobs were eliminated by transferring workers to related activities such as offshore operations, military shipbuilding and ship repairing. Manpower not needed for building new non-military vessels can be absorbed only very slowly by the development of activities not connected with shipbuilding as this is a long-term process.

However, some shipyards are still finding it difficult to recruit skilled workers. This is due to a wide range of factors including mobility and the problem of job stability. To resolve this difficulty, the industry must reorganize production methods and working conditions, and turn its attention to matters such as the retraining and further training of workers.

At Community level, in 1980 aid was granted from the relevant aid schemes of the European Social Fund in three Member States - Italy, the United Kingdom and Germany with the aim of promoting the occupational and geographical mobility of the labour force; some 7000 persons were covered by these operations.

In August 1980, the Commission submitted to the Council a proposal for a Regulation on the establishment of a new aid scheme under the European Social Fund (ESF) to provide income support for workers aged over 55 who leave the shipbuilding industry and drop out of the labour market. The proposal related to an experimental two-year scheme with a budget limit of 11 million ECU; between 2000 and 3000 persons were involved; this ESF aid would be limited to 4500 ECU per person. The Economic and Social Committee and the European Parliament have expressed favourable opinions, but the Council has not reacted favourably and has left it to the Commission whether it should amend the draft.

In October 1980, the Council approved the Commission proposal to allocate, under the non-quota operations of the European Regional Development Fund (i.e. operations not necessarily connected with the traditional areas of intervention), financial aid of 17 million ECU over five years to the United Kingdom regions particularly affected by difficulties in the shipbuilding industry.

This aid will be granted in the form of a special multiannual programme directed towards the improvement of the physical and social environment in order to attract activities which provide employment, towards the development of small and medium-sized enterprises and towards the encouragement of innovation.

4.3. Market prospects

The world trade forecasts are anything but promising for most of 1981; this will unavoidably affect the sea transport market. But, in view of the continuing large-scale under-utilization of fleets on this market, most experts agree that it is extremely difficult to make any quantitative forecast for this sector. We must therefore restrict ourselves to making a number of qualitative indications which will probably play a role in future trends on this market.

As regards oil tankers, the transportation of oil is not expected to increase - or to do so only slightly - in 1981. The tonnage capacity on offer will thus continue to exceed the demand, but surplus capacity will be partly absorbed by sub-optimal utilization of the fleets or by using them for oil storage. The scrapping of this type of vessel could also be accelerated somewhat, particularly as there would no longer be any economic justification for adapting some of them to the requirements of the IMCO *) rules.

*) IMCO = Intergovernmental Maritime Consultative Organization.

However, it still appears probable that a genuine balance between supply and demand in the oil tanker sector will emerge around the mid-eighties, and this is likely to have unavoidable adverse effects on the level of new orders until then.

Bulk carriers face an uncertain situation in 1981. In view of the weakness of the economic situation in most of 1981, the future largely depends on the extent to which the trends for the cereals and coal trade develop, particularly as regards the sub-optimal use of fleet capacity. If this latter factor were damped down in consequence of normalization of port conditions, there would be a marked short-term imbalance on this section of the market and demand would be considerably curbed. The imbalance could be worsened following the large-scale deliveries of bulk carriers expected in the short term as orders made in 1980 are completed. It is therefore difficult to forecast whether there will be a consolidation of the balance between supply and demand which began to re-establish itself in 1980 or whether there will be a return to a situation of over-capacity.

In 1980, the Association of West European Shipbuilders (AWES) drew up new forecasts relating more directly with shipbuilding activities. They are summed up in the following table:

TABLE 12 - FORECASTS OF WORLD SHIPPING REQUIREMENTS
(AWES study 1980)

10 ⁶ cgrt	NEW TONNAGE REQUIREMENTS for delivery during			CONTRACTING REQUIREMENTS for delivery during		
	1980- mid 1985	mid 1985- mid 1990	1980- mid 1990	1980- mid 1985	mid 1985- mid 1990	1980- mid 1990
Oil tankers	12,0	8,4	20,4	6,6	8,4	15
Bulk carriers + combined carriers	11,3	18,0	29,3	6,5	18,0	24,5
Cargo ships	36,2	49,3	85,5	28,0	49,3	77,3
Gas and chemicals- carriers	6,1	9,6	15,7	4,3	9,6	13,9
Non-cargo vessels	16,6	24,3	40,9	11,1	24,3	35,4
TOTAL	82,2	109,6	191,8	56,5	109,6	166,1
Annual average	14,95	21,92		14,1	21,92	
Annual average in AWES study 1978 (1978-1985)				13,2		

NB : New tonnage requirements have already been partly covered by orders made.
Contracting requirements represent orders still to be made.

These indications, although derived from more optimistic GDP growth scenarios than those used by the OECD or the Commission, show that no definite improvement in shipbuilding activity can be expected in the next two to three years. That is one of the reasons why it is regrettable that activity in the Japanese shipyards has started to pick up, since in the absence of any curbs, this may well disturb the equilibrium between supply and demand and the geographical distribution.

4.4 Structural developments in the shipbuilding industries of the Member States

Germany

The reorganization to which the industry has committed itself as part of the State-aid programme continued in 1980. A total of 2 500 jobs in the non-military new building sector were transferred to other activities within the shipyards, and as a result total employment remained stable at a level of 52 500. This means that the shipyards were able to intensify their policy of diversification at the same time.

Belgium

There were no major structural changes in new shipbuilding activities in Belgium in 1980. However, there were restructuring measures in the ship repairing sector involving the merger of the two largest firms in the Antwerp region; these measures were backed by State financial aid, in particular in the social sector.

As from August 1980, working hours in the shipbuilding industry were reduced from 40 to 38 hours a week.

Danmark

No major structural changes occurred in Denmark in 1980. As part of the diversification scheme, some shipyards began operations in the offshore structures sector, or at least in supplying modules for such structures.

France

As for restructuring operations in France, the major shipyards have tried to adapt their internal organization to the reduction in the labour force which had taken place in previous years; the switch to more sophisticated products and greater diversification of production continued and is reflected in the orders obtained.

Ireland

Despite the efforts in Ireland to diversify into ship repairing and machinery-building because of the shortage of work in new building, it was impossible to provide full-time employment for a labour force which had already been reduced to a minimum survival level of some 750 workers.

Italy

Orderly closure of shipyards was avoided in Italy as a restructuring plan was lacking, but the workload of several shipyards did not allow that the manpower available could work full-time.

In these circumstances, the industry is endeavouring to make a start on internal reorganization so as to be in a better position to cope with the difficult market situation and is endeavouring to diversify into related activities. Since the crisis began, the building of military vessels for foreign countries and, to a lesser extent, ship repairing have absorbed a growing proportion of the surplus manpower. As a result of difficulties hindering progress in this direction some production facilities have been mothballed.

Netherlands

The restructuring plan implemented in the Netherlands between 1977 and 1979 was completed in 1980 with the closure of the last shipyard capable of building very large vessels, this being a sector no longer considered to be economic in the Netherlands. The Government had to take action to mitigate the financial consequences of this operation and also introduced a new system of general aids for all the remaining shipyards involved in the building of merchant vessels.

The restructuring of the group of small shipyards in the north of the country was not so radical as that of other groups and was restricted to certain forms of voluntary cooperation which nevertheless enabled them to maintain their market position in a fairly satisfactory manner during the crisis.

Restructuring has resulted in a 50% reduction in production capacity.

United Kingdom

The restructuring of British Shipbuilders was actively continued in 1980 and mainly involved the employment and the organization of the group. If affected both new building and the shiprepairing and mechanical engineering sectors, one objective also being to increase activities in the offshore sector.

Summary

Adjustments are being made, in line with the changed market conditions, throughout the Community industry. Over the years, many shipyards and slipways have been closed down or mothballed or have diversified into other activities. Generally speaking, it is difficult to gauge the impact of these measures on the production capacity, but a tentative estimate leads one to expect that the capacity in use in 1976 has been reduced by over 20% and that the remaining capacity is being used to the extent of about 60 to 70%. In addition, efforts are being made to modernize production equipment and methods.

The adjustment process is proceeding with differing degrees of intensity depending on the Member State or shipyard concerned.

5. Conclusions

Since, as described above, the general economic situation is in the short term depressed, the very moderate increase in international trade cannot be expected to create conditions favourable to the ordering of ships. The Commission is therefore of the opinion that the shipbuilding market will not pick up in 1981 since any exceptions in certain sectors of the market will not be sufficient to overcome the current stagnation.

In these circumstances, the Community cannot tolerate, any more than it did in 1980, the continuing support - launched in 1980 - for the recovery of shipbuilding activities in Japan, if it wishes to avoid seeing the European and, in particular, Community shipyards suffer a further decline in orders received and in their market position. In subscribing to the OECD's general guidelines, Japan has committed itself to bear its share of the effects of the crisis, to ensure that they are distributed fairly among the participating countries. It must be granted that Japan did take steps in this direction, but - since 1980 - it has relaxed these efforts even though the overall situation is still difficult. The Commission, on behalf of the Community, has therefore repeatedly requested Japan, in particular in OECD Working Party N. 6 on Shipbuilding, to revert to fulfilling its earlier commitments. Although it has expressed good intentions, Japan has still not seen fit to take practical measures to ensure that Japanese shipyards do not corner a growing share of the market in a way which, in view of the stagnation

of this market, would continue to harm the Community shipyards. As long as the situation causes concern in this connection, the Commission, confident that international cooperation can play a role in resolving the difficulties arising in this sector, intends to step up its efforts to persuade Japan to accept the facts and take the action required in order to help restore the balance in the geographical distribution of orders between Japan and Western Europe as was the case in 1978 and 1979.

Where the internal aspect are concerned the Commission is endeavouring to underpin this reorganization by various measures.

Thus, it can be expected that the Fifth Directive on aids to shipbuilding, the drafting of which started in 1980, will come into force during the first six months of 1981. *)

*) In the meanwhile, the Council has approved this directive on the 28 April 1981 (O.J. L 137 of 21 May 1981).

The discipline introduced by the previous Directive will then be extended to include aids to shipowners in connection with the acquisition of vessels, in order to prevent such aids from jeopardizing the adaptation of the shipbuilding industry; the Directive also emphasizes the importance of improving competitiveness among the criteria for the restructuring effort, as this constitutes the main condition for considering the crisis aid to be compatible with the common market.

No progress resulted from the study of the possibilities of presenting practical proposals for a scrap and build scheme at Community level. The additional aid which such a scheme would involve raises budget problems; moreover the principle of such a scheme has been disputed.

In view of the difficulties of the Community shipbuilding industry in maintaining its position on the market, attention is now focused on expedients - such as improving the financing conditions offered to EEC shipbuilders - designed to stimulate demand and maintain shipyard activity without any significant increase in the overall budget allocations.

At present the Commission is not planning to modify the aforementioned proposal for a new type of assistance from the Social Fund. The bringing into effect of the non-quota operations under the regional fund is currently under consideration.

The Commission is engaged in an ongoing dialogue with the parties involved; their cooperation in implementing the measures is one of the essential conditions for the success of these measures. Dialogue of this type provides the opportunity for encouraging the industry to develop consistent internal measures designed to improve its competitiveness, an objective which it has recognized as a priority.

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.

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 (Para 2) and do not permit worldwide comparisons to be made.

The figures produced by Lloyd's (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, as well as the objective to present homogeneous references, it has been considered preferable to use this source for commentaries, it being, moreover, 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 in 1976 and 1977. Despite certain differences which can often 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 is 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 ($grt \times coefficient = cgrt$). New coefficients for calculations cgrt were agreed upon by the OECD in 1977. The LRS figures for 1976 are based on AWES coefficients, which were the basis for 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.