Cover Title:

Shipbuilding

State of the industry and crisis measures

Bulletin
of the European Communities

Supplement 7/79

First half-yearly report on the state of the shipbuilding industry in the Community

(adopted by the Commission on 16 August 1979)

COM (79) 469, 17 August 1979
Pages 5-18

EUROPEAN COMMUNITIES

Commission

This publication is also available in the following languages:

DA	ISBN 92-825-1687-3
DE	ISBN 92-825-1688-1
FR	ISBN 92-825-1690-3
IT	ISBN 92-825-1691-1
NL	ISBN 92-825-1692-X

Cataloguing data can be found at the end of this publication

Printed in the FR of Germany 1980

ISBN 92-825-1689-X Catalogue number: CB-NF-79-007-EN-C

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Summary

I The aim of this report, the first of the half-yearly reports henceforth to be submitted to the Council, is to show present developments in the shipbuilding industry and to assess the effects of measures taken in Member States.

II (a) The general state of the shipbuilding industry is still marked by a decreasing order intake, reduced order books and continuous decline of employment. Since the Commission's Communication to the Council of December 1977 the situation of the industry has worsened. The industry's reserves are coming to an end. Developments in this sector have tended to be more serious than expected.

(b) Since 1976 the level of new orders represents only 50-60 % of completions, although the shipyards' output has been reduced by 25-30 % since 1976.

(c) The shipyards' workforce was reduced by some 50 000 between 1975 and 1978 (newbuilding sector). Further reductions in employment can be expected, especially if the present new-order intake continues at its low level.

(d) The shipbuilding crisis is closely connected with the shipping crisis, which generally is still marked by overcapacity. The tanker fleet, for example, increased by some 50 % between 1973 and 1978, whereas oil transport (measured in ton-miles) increased only by 9 % over the same period. Even though slow steaming has reduced fleet productivity, and therefore also the overcapacity, it is clear that the energy crisis, with its consequences for growth rates and hence for the development of world trade and for transport needs, may contribute to prolonging and deepening the shipping crisis. In consequence, the low demand for newbuilding may continue.

III According to market forecasts, the shipbuilding crisis will extend well into the 1980s and a substantial market upswing cannot be expected before 1982/83. Even in 1985 estimated shipbuilding production (some 18 million cgrt) will be below the average for the period 1975-77.

IV Restructuring measures are necessary to maintain or to re-establish within the Community a healthy and competitive shipbuilding industry. First results of restructuring efforts can be seen: in particular the Community has substantially reduced the production and to some extent the capacity of shipyards. Nevertheless, it must be said that much has still to be done and that restructuring is a protracted process which can only be achieved under a long-term strategy. The basic condition is that there must be at least some orders for newbuilding in order to allow minimum capacities to survive.

V Considering all these aspects, the Commission has examined ways and means of improving the demand situation. A Communication regarding a proposal for a scrap-and-build programme will be submitted to the Council.[1] This programme would have also favourable social implications for the sectors involved.

[1] Communication from the Commission to the Council on a scheme to promote the scrapping and building of ocean-going ships (published as the second part of this Supplement).

Introduction

1. In the Resolution of 19 September 1978 regarding the reorganization of the shipbuilding industry,[1] the Council noted that the Commission will prepare half-yearly reports on the state of the shipbuilding industry and on the progress made with its reorganization.

In its Communication to the Council of 9 December 1977[2] which led to the Council Resolution of 19 September 1978, the Commission analysed the causes of the present crisis which the shipbuilding industry is facing as well as the market prospects and the impact which these developments will have on the employment situation. It was stated that the first objective of Community policy on shipbuilding must be to make its yards competitive on the world market and that the gravity of the situation requires a strategy for the reorganization of this sector.

Since then the situation of the industry has worsened and it can be assumed that the crisis situation will continue during the coming years.

The aim of this first half-yearly report is to show the actual developments and to evaluate the effects of measures taken in Member States. In this connection it may be noted that the long-term character of the shipbuilding crisis makes it necessary to monitor very carefully the effects of measures taken in order to allow for an effective and smooth adaptation of the quantitative and qualitative capacity of the shipbuilding industry.

It is also the purpose of these half-yearly reports to verify continuously whether, and if so in what direction, additional action would be recommendable for the restoration of a healthy and competitive shipbuilding industry within the Community.

[1] OJ C 229 of 27. 9. 1978; Bull. EC 7/8-1978, point 2.1.20.
[2] Supplement 7/77 — Bull. EC.

Situation of the sector

General remarks

2.1 The general state of the shipbuilding industry is still marked by further decreasing production levels, reduced order books and continuous reduction of employment. The new order intake, which is an indicator for future employment, fell to only 2 million cgrt[1] in 1978 and remained at this low level during the first quarter of 1979. This is below the level of 2.4 million cgrt, the Commission's initial production forecast for 1980, which was at that time regarded as a pessimistic figure. However, actual developments tend to surpass this estimate.

A quantitative and qualitative adaptation of the industry to the longer term prospects for the market has been carried out in most Member States, mainly in the form of reducing employment and production, but its effects are in general being outstripped by market developments.

Against this background one can further state that the competitiveness of the industry as a whole has not improved since the Commission's Communication to the Council in December 1977. On the contrary, the sharp decline of shipbuilding production, as a consequence of decreasing order intakes, has led to a general underutilization of building facilities. In addition, the intense competition has the effect of preventing shipyards from concentrating on an optimum production programme, thus inducing extra cost disadvantages. These developments – through which, together with depressed newbuilding prices, it is sometimes not even possible to cover the cost of material — will in the longer term also affect the shipyards' competitiveness and ability to develop innovations.

[1] Cgrt = compensated gross register tons, tonnage which takes into account the shipbuilding work for a vessel, calculated on the basis of the grt and of special coefficients for different ship types and sizes (grt x coefficient = cgrt). New coefficients for the calculation of cgrt were agreed upon in the OECD in 1977. Figures for 1976 are based on AWES coefficients, which were the basis for the OECD coefficients (but not fully comparable). See also the annexed data sheet.

The danger exists that – if a certain stability of new order intakes cannot be achieved – the industry may come into a state which would be detrimental to a smooth qualitative and quantitative adaptation of the sector.

Production and new order intake

2.2 Table 1 shows the development of newbuilding completions and of the new order intake in the European Community.

Table 1

('000 cgrt)[1]

	1976	1977	1978	1st quarter 1979
Completions				
Belgium	139.8	82.2	165.2	32.2
Denmark	560.6	496.0	362.5	116.4
FR of Germany	1 468.0	1 364.6	1 029.1	139.1
France	672.4	609.6	430.6	95.2
Ireland	20.3	21.7	5.0	15.0
Italy	353.9	462.0	305.2	61.4
Netherlands	940.0	556.4	513.9	146.4
United Kingdom	985.1	782.8	718.4	141.7
Community total	5 140.1[2]	4 375.2	3 529.9	747.3
New order intake				
Belgium	75.0	115.2	59.4	21.5
Denmark	317.1	281.0	263.8	38.9
FR of Germany	726.1	707.7	535.8	154.7
France	63.6	61.6	214.1	103.5
Ireland	19.2	5.0	3.0	—
Italy	301.5	148.9	330.0	4.1
Netherlands	626.4	732.4	376.5	39.7
United Kingdom	627.6	489.3	230.2	41.6
Community total	2 756.6	2 540.9	2 012.6	403.9

Source: Lloyd's Register of Shipping.

[1] 1976: cgrt based on AWES coefficients.
[2] Estimated production on the basis of new OECD coefficients: about 4.8 million cgrt in 1976.

Table 2

	Completions '000 cgrt	New order intake	
		'000 cgrt	% of completions
1976	5 140.1	2 756.1	53.6
1977	4 375.2	2 540.9	58.1
1978	3 529.9	2 012.6	57.0
1st qr. 1979	747.3	403.9	54.0

Source: Lloyd's Register of Shipping.

Table 2 shows the ratio between completions and new order intake in the Community.

From Tables 1 and 2 it can be deduced that since 1976 the new order level represents only 50-60 % of completions, although the output of shipyards has been reduced by 25-30 % over the same period. However, new order intakes have shown a concomitant decline.

Table 3 shows the development of market shares of principal shipbuilding regions.

Table 3

	1976		1977		1978	
	'000 cgrt	%	'000 cgrt	%	'000 cgrt	%
Completions						
Community	5 140.1	23.3	4 375.2	20.6	3 529.9	21.3
Rest AWES[1]	3 145.7	14.2	3 278.6	15.5	2 303.1	13.9
(Western Europe)	(8 285.8)	(37.5)	(7 654.1)	(36.1)	(5 832.9)	(35.2)
Japan	8 348.0	37.8	8 358.0	39.5	6 120.5	37.0
Eastern bloc[2]	5 444.4	24.7	2 471.3	11.7	2 132.3	12.9
Other regions			2 698.1	12.7	2 461.1	14.9
World total	22 078.2	100.0	21 181.5	100.0	16 546.7	100.0
New order intake						
Community	2 756.6	17.2	2 540.9	18.1	2 012.6	18.6
Rest AWES[1]	1 903.0	11.9	2 076.6	14.8	1 367.8	12.7
(Western Europe)	(4 659.6)	(29.1)	(4 617.3)	(32.9)	(3 380.6)	(31.3)
Japan	7 337.5	45.9	6 245.9	44.5	4 333.9	40.1
Eastern bloc[2]	3 985.3	24.9	1 207.8	8.6	1 146.8	10.6
Other regions			1 969.6	14.0	1 935.0	17.9
World total	15 982.4	100.0	14 040.7	100.0	10 796.7	100.0

Source: Lloyd's Register of Shipping.

[1] AWES: Association of West European Shipbuilders. Members outside the Community are shipbuilders' associations in Finland, Sweden, Norway, Spain and Portugal.
[2] Information incomplete.

A comparison between the situation of the shipbuilding industry of the Community and that of Japan, the leading shipbuilding country in the world, shows that the share of the new order intake in the Community tends to be lower than the share of deliveries, whereas the Japanese share of new orders is higher than the market share of its deliveries. Other shipbuilding regions were able to obtain a 28.6 % share of all new orders placed in the world in 1978. This structural development, mainly due to the setting-up of modern shipbuilding facilities in developing countries, narrows further the scope for the traditional shipbuilding areas, and this process is continuing.

In this respect there are also some qualitative aspects to be considered. The fact that the Community shipbuilding industry was able more or less to maintain its relative market share cannot be regarded as a success but, on the contrary, illustrates the dwindling competitiveness of the industry. As the European shipyards have a traditionally higher share of the market for special ships and for more sophisticated types, sectors in which the general decrease is not as significant as for oil tankers and bulk carriers, the Community industry should have been able to increase its relative market position. The following analysis for ships other than oil tankers and bulk carriers shows the development in this specific sector (calculated on the basis of grt).

Table 4

	EC	Rest AWES	Japan	Other regions	World total
Completions[1]					
1977 '000 grt	2 344.6	815.0	3 161.4	1 944.8	8 265.8
%	28.4	9.9	38.2	23.5	100.0
1978 '000 grt	2 151.4	848.4	2 790.3	2 371.4	8 161.5
%	26.4	10.4	34.2	29.1	100.0
New order intake					
1977 '000 grt	1 341.6	1 021.6	3 025.4	1 586.7	6 975.3
%	19.2	14.6	43.4	22.7	100.0
1978 '000 grt	1 163.4	453.0	2 088.5	1 652.4	5 357.3
%	21.7	8.5	39.0	30.8	100.0

Source: Lloyd's Register of Shipping.

[1] Excluding bulk carriers and oil tankers.

Order book and workload situation

2.3 As a result of the shipbuilding crisis the order books of the world's shipbuilding industry have further decreased since the end of 1977. The total order book at the end of March 1979 was 22.6 million cgrt, of which some 40 % falls to shipbuilding regions outside Western Europe and Japan, compared with their present production share of 25-30 %. The following table shows the order book situation in the principal shipbuilding regions:

Table 5 — *Total order book at 31 March 1979*

Country/Region	in '000 cgrt	%
European Community	4 780.7	21.1
Rest of AWES	3 918.3	17.3
(Western Europe)	(8 698.9)	(38.5)
Japan	4 978.3	22.0
Eastern bloc[1]	2 513.5	11.1
Other regions	6 430.6	28.4
Total	22 621.3	100.0

Source: Lloyd's Register of Shipping.

[1] Incomplete.

The Japanese share of order books is traditionally lower than that of other shipbuilding regions, mainly because of shorter building times in Japan.

As far as the shipyards in the Community are concerned the industry has pointed out that more than 40 % of this order book is already worked off, thus reducing the average workload of the industry to less than one year's production. In this context it may be further noted that the order book situation differs widely from yard to yard; thus certain shipyards are already being confronted with acute employment problems.

These are only tentative calculations, and it is to be expected that a substantial proportion of ship completions during 1979 will be carried out over 1980.

It can therefore be assumed that the tonnage completed in the Community will be in the order of 3.0 million cgrt during 1979 (together with completions during the first quarter of 1979).

In this connection, however, it should be remembered that a major part of the work on ships to be completed in 1979 was carried out in 1978 and that the industry's current workload, particularly as regards the second half year of 1979, is determined by the low level of tonnage due for delivery in 1980.

As a result of this development more and more Community shipyards are having difficulties in finding work and in maintaining an economic production potential. The situation affects more or less

Table 6 — *Total order book at 31 March 1979 (Community)*

	Total ('000 cgrt)	of which to be completed during		
		1979	1980	1981
Belgium	222.5	105.5	117.0	—
Denmark	485.5	275.8	144.7	65.0
FR of Germany	748.2	521.9	158.7	67.5
France	1 022.9	468.1	399.6	155.2
Ireland	6.0	3.0	3.0	—
Italy	750.7	437.6	272.0	41.1
Netherlands	522.4	384.2	123.3	14.9
United Kingdom	1 022.6	717.8	286.6	18.1
Total Community	4 780.7	2 914.0	1 505.0	361.7

Source: Lloyd's Register of Shipping.

all shipyards, even the most competitive ones. Another adverse effect of the exhaustion of orders is that a continuous production flow cannot be maintained, with all its consequences where costs are concerned.

Employment

2.4 Shipyards are constantly reducing their workforce. The following table shows the trend in the Member States:

Table 7 — *Employment in shipbuilding in the Community (newbuilding activities only)*

	1975	1978	1979	
Belgium	6 138	5 140	5 120	March 1979
Denmark	16 630	12 000	11 100	March 1979
FR of Germany[1]	46 800	32 400	26 800	planned
France[2]	27 628	22 010	21 850	1st qr 1979
Ireland	869	840	800	estimated
Italy	25 000	20 000	19 800	est. March 1979
Netherlands	28 739	22 400	21 800	estimated
United Kingdom[1]	54 550	41 050	37 950—31 000 est.	
Total	206 354	155 840	(145 220—138 270)	

Table compiled from various sources.

[1] Excluding naval shipbuilding.
[2] Employment of shipyards with a workforce of more than 150.

In addition, there are some other measures which shipyards have introduced, such as cutting out overtime, short-time working and reduced working hours. However, these measures have been taken to obviate actual difficulties; they are, generally speaking, not part of a long-term strategy aimed at adapting the firm in line with market requirements. In this connection it should be noted that only a few firms have been able to switch their newbuilding workforce to other activities. Where statistics of employment in newbuilding show a reduction of 50 500 between 1975 and 1978, statistics of total employment in shipbuilding show a similar reduction; it follows that only few workers obtained jobs in other sectors of shipyards.

In the light of the present overall situation of the shipbuilding industry, a further reduction in employment in newbuilding must be expected, and this will have serious social consequences. It can be estimated that more than 50 000 jobs of men directly employed in the shipyards are at risk if the present order intake remains at its present low level.

On this subject some shipyards have stated that they nevertheless have difficulties in securing skilled workers and that this situation has caused problems as regards carrying out production schedules on time. Because of the long-term production process and the variety of production sectors in a shipyards, it may also happen that some departments are working overtime while others have no work at all.

Developments in shipping

2.5 The crisis in the shipbuilding industry is closely connected with the shipping crisis which started in 1974 after the developments in the oil sector and is persisting.

The imbalance on the shipping market is mainly the result of the new ordering boom some years ago, when it was widely anticipated that the growth of world seaborne trade, some 12 % per year in ton-miles from 1968 to 1971, would continue during the decade. In 1973, for instance, 73.6 million grt, mainly oil tankers, were ordered. This enormous order boom in the late 1960s and during the first years of the present decade has led to a rapid increase in shipbuilding capacities in the world, mainly in Japan, resulting in overcapacity in the shipbuilding sector, which now affects all shipbuilding regions in the same way and which is aggravated by a low level of new orders as a result of the overcapacity in shipping.

The new order boom of those years led in particular to an increase in the tanker fleet by about 50 % between 1973 and 1978, whereas oil transport, measured in ton-miles, increased by only 9 % over the same period. Table 8 reflects these developments.

Table 8 — *World seaborne trade and cargo-carrying fleet*

	'000 million ton-miles	%	Fleet[1]	
			million dwt	%
	Seaborne trade in oil and oil products			
1973	10 216	100	234.3	100
1975	9 727	95	313.0	134
1977	11 459	112	356.1	152
1978[2]	11 135	109	351.8	150
	Seaborne trade of other cargoes			
1973	5 187	100	205.6	100
1975	5 636	109	230.7	112
1977	6 020	116	268.5	131
1978[2]	6 120	118	281.0	137

Source: Fearnley & Egers, Oslo.

[1] At end of year.
[2] Provisional.

Total overcapacity in shipping was estimated at the end of 1978 to be around 100 million dwt – or some 15 % of the total cargo-carrying tonnage – of which 80 million dwt was due to overtonnage in the tanker fleet. These calculations by shipbrokers did not take into account certain factors which reduce the effect of this surplus capacity on the market, such as the influence of 'slow steaming'. This practice immobilizes a considerable amount of tonnage and will probably continue. However, cargo-carrying capacity is basically in excess of normal market requirements.

In this difficult situation Community shipowners, who are the traditional customers of the European shipyards, have faced severe competition from a variety of sources, and the Community fleet is currently declining in both relative and absolute terms, as Table 9 shows.

Table 9

Date	World	Community	
	'000 grt	'000 grt	% of world tonnage
All merchant ships			
1.7.1960	129 769.5	43 620.5	33.6
1.7.1970	227 490.0	57 369.4	25.2
1.7.1975	342 162.4	74 283.3	21.7
1.7.1977	393 678.4	76 392.6	19.4
1.7.1978	406 002.0	76 930.1	18.9
Commercial trading types only			
1.7.1978	379 549.9	72 411.4	19.1
11.4.1979[1]	383 001.1	68 231.4[1]	17.8

Source: Lloyd's Register of Shipping.

[1] Excluding Netherlands Antilles (1.6 million grt).

During recent months some signs of a recovery on the shipping market have been reported, especially for certain sectors. It may be noted that laid-up tonnage has been reduced substantially over the same period. Table 10 illustrates this development.

Table 10 — *Tonnage laid-up (merchant ships of 300 grt and over)*

	Number	'000 grt	'000 dwt
1978			
January	678	23 660	43 675
April	752	27 506	50 887
July	765	29 651	55 289
October	737	25 486	47 507
1979			
January	595	16 678	30 290
April	526	15 048	27 395

Source: Institut für Seeverkehrswirtschaft, Bremen.

Taking into account the general aspects – namely the merely marginal increase in world seaborne trade together with the existing overcapacity – it is to be feared that in many market sectors these developments will be only of a temporary nature: freight rates may again decrease. Furthermore, a substantial increase in world seaborne trade as a result of an economic recovery in major industrial nations cannot be expected as the developments in the oil sector will probably affect economic growth. Reduction of fleet productivity as a result of slow steaming is an uncertain factor. Its impact on future tonnage requirements is difficult to estimate, as the service speed could be increased if freight rates were sufficient to justify such an increase from an economic standpoint.

It emerges that in the tanker sector substantial tonnage requirements were generated by the present oil crisis, leading to an increasing demand, e.g. transport capacity to carry spot quantities, for part-loadings of bigger units and for oil storage.

In this context special considerations regarding the tanker sector have led to a number of orders for the building of 80 000-dwt tankers. It should be noted that not a single ship of this type has so far been ordered from a shipyard in the Community.

Market forecasts

3. During the past year various market forecasts have been published. Although these studies differ in their basic assumptions and consequently in their results, they all agree on the point that the shipping crisis will last well into the 1980s and that demand for new tonnage may decrease even further in the forthcoming years.

According to a study prepared by the market forecasting group of the Association of West European Shipbuilders in 1978, a substantial market upswing cannot be expected before 1982/83. This market recovery will be based mainly on replacement requirements, as most of the tonnage built in the 1960s will become obsolete from that time on. It is expected that after 1985 the combined effect of tonnage requirements for replacements and for fleet expansion as a result of growing seaborne trade could lead to a high level of new orders again.

Table 11 shows the principal results of these market forecasts.

Table 11

Type of vessel	Contracting requirements 1978-85	
	million grt	million (cgrt)
Oil tankers >10 000 dwt	20.0	(9.3)
<10 000 dwt	1.4	(3.4)
Bulk carriers	13.0	(6.0)
General cargo ships	29.2	(34.7)
Gas carriers	7.5	(5.2)
Miscellaneous	9.9	(27.1)
Total	81.0	(85.7)
Annual average (Jan. 1978 to mid-1984 = 6.5 years)	12.5	(13.2)

It can also be deduced from this study that estimated world shipbuilding production in 1985 (some 18.0 million cgrt) will remain below the level of 1975-77.

However, the study does not take into account uncertain factors resulting from present developments in the oil sector.

Two further aspects are to be considered in this context: all market forecasts are based on certain assumptions, one key assumption being that the necessary adaptations to the market situation will be made, both in shipping and in shipbuilding.

Consequently, the outlook for a market recovery in the late 1980s should in no way serve as an excuse for failing to undertake necessary adaptations of capacities.

The second aspect is that a stagnation in the shipping market leads not only to a contraction of the amount of orders for fleet expansion projects, but also to the withholding of replacement orders which would have been placed if shipowners had had a more optimistic view of future developments. Furthermore, cut-throat competition narrows the scope for innovations, as higher-priced new building would have to compete with old ships operated at low costs and to low social and technical standards.

In view of all these developments, there is likely to continue to be very little scope for new building orders, and it will be difficult for shipbuilders world-wide, and more particularly for Community shipbuilding, to obtain enough orders on the market to keep even the viable yards running.

Structural developments

4. Against the background of the existing overcapacity in shipbuilding and on the assumption that the crisis will probably continue over the coming years, intensified restructuring efforts are necessary in order to maintain or to re-establish within the Community a healthy and competitive shipbuilding industry.

It can be argued that ship production and employment have already been reduced in the Community by closing down production units and diversification, but mainly through elimination of temporary labour, abolition of overtime and natural wastage. However, it should be pointed out that such measures can only reduce production by underutilization of equipment and building facilities, which widens the gap between actual cost and market prices. It therefore seems inevitable that more facilities will have to be either converted to other activities outside shipbuilding or else closed down.

This adaptation is first and foremost the responsibility of the industry itself. However, the reserves of many shipbuilding firms are coming to an end as market prices have for some time – since 1975 – been below European costs. Taking this into account, various Member States have introduced shipyard support schemes in order to permit smooth adaptation of shipbuilding facilities.

The Belgian Government is considering whether aid may be given to its only two medium-sized yards engaged in building ocean-going ships in order to maintain its industries at a minimum viable level. No decision has been taken so far.

The Danish Government has no plans concerning the restructuring of the shipbuilding industry. The Government recognizes that a considerable reduction of capacity is unavoidable; the actual extent should, however, be decided upon by the industry itself. Employment in newbuilding has been reduced from 16 630 in 1975 to 12 000 in 1978.

France, which has reduced the number of shipyards building ocean-going ships during the last decade, will continue with its restructuring efforts. In May 1979 a new programme was submitted to the Commission and is currently being examined. Under this programme, production aids are envisaged for new orders up to a maximum of 435 000 cgrt in 1979 and 420 000 cgrt in 1980. This ceiling corresponds to 76 % of the average production for 1974-75. These aids, however, will be strictly related to the restructuring policy, aiming at stabilizing the industry's situation on a substantially reduced but viable level of activity.

The German aid scheme was presented to the Commission in January 1979 and approved by the Commission in June 1979. The Federal Government has approved the objective of the shipbuilding industry's report on structural developments for the shipyards building ocean-going ships. According to this report, an employment reduction is envisaged for the building of new merchant ships (from 32 391 in 1978 to 26 851 in 1979 and 23 507 in 1980; employment in 1975: 46 839).

The Irish Government has announced its intention to help the only shipyard capable of building deep-sea vessels to maintain a minimum viable size. A programme for subsidies on orders has been submitted and approved by the Commission; the programme also provides for aids for diversification purposes.

The initial Italian aid programme for subsidies on orders covers a period ending September 1978. The Italian Parliament has still to decide upon a new restructuring plan for the shipbuilding industry presented by the Government, leading to a reduction of 25 % of the 1975 capacity. Employment in newbuilding has meanwhile been reduced from 25 000 in 1975 to 20 000 in 1978, and the objective is a further reduction of 3 000.

The restructuring plans of the Dutch Government envisage the closing down of a number of production units. Support has been given for the concentration of newbuilding production, for the regrouping of shipyards and for converting capacities to activities outside shipbuilding. Employment in newbuilding has been reduced from some 29 000 in 1975 to about 22 000 in 1978. Further measures which may eventually lead to a capacity reduction of 50 % of the industry's initial capacity as compared with pre-crisis years are under consideration, and the Dutch Government has notified the Commission that the largest newbuilding shipyard, near Rotterdam, will stop its activities as a newbuilding shipyard.

The United Kingdom Government has decided to approve option 2 of the Corporate Plan which was submitted by British Shipbuilders at the end of 1978. The approval of option 2 implies that the production capacity of British Shipbuilders will be reduced to 430 000 cgrt per year in 1980/81. Total employment in newbuilding of merchant ships (including independent shipyards) has been reduced from 54 550 in 1975 to 41 050 in 1978 and some 37 950-31 000 in 1979.

It may be noted, however, that, generally speaking, restructuring policies lag behind market developments. In addition to shipbuilding aids provided under the Fourth Directive, various special aid programmes have been introduced to promote the new order intake. These aids are special aids for national shipowners, extended credit facilities for orders from developing countries and the taking-over of shipyard's losses in some Member States. Furthermore, even special financial support has been made available for some orders. Despite all these support measures, numerous shipyards are already being confronted with acute employment problems.

The situation outside the Community is similar. Japan has introduced certain production ceilings for its shipbuilding industry for 1979 and 1980. In compliance with these production ceilings, the maximum operating ratios of the principal shipyards will vary between 34 and 49 % (according to the group of shipyards) as compared with their peak production level. As a long-term measure, shipbuilding capacity will be reduced by 35 %, with the aim of decreasing total newbuilding capacity by 3.4 million cgrt. In addition, public financial support is available for the scrapping, freezing or transfer of excess shipbuilding facilities (applicable to building docks and berths with a capacity of more than 5 000 grt). Under this programme shipbuilders can sell building facilities to an organization established by the Japanese Government.

It may be noted that shipyards which had gone bankrupt were not finally closed down but, on the contrary, started up again with shipbuilding activities when the company was restored under the Japanese rehabilitation law.

As a measure on the demand side, Japan has introduced financial support for the building of ships for Japanese owners. In addition, financial support has been made available for the scrapping of ships in Japanese shipyards.

Although in some cases restructuring efforts have not proved quite sufficient, and it may be feared that capacities will be revived when the demand for newly-built tonnage rises again, these measures constitute a step in the right direction. Against this background it must be reported that countries such as Korea, Brazil, Taiwan and the Eastern bloc countries, and in particular Poland, are still expanding shipbuilding capacity.

Some countries, and especially Poland, were able to gain orders at price levels well below the cost applied by its Far Eastern competitors. The result is that countries outside Western Europe and Japan now have a market share of 40 %, calculated on the basis of their order books.

The Commission is aware that restructuring is a long and difficult process and to be carried out as a long-term measure. An essential prerequisite for the survival of a minimum shipbuilding capacity in the Community is a certain basic level of newbuilding orders; otherwise shipyards will have to close. In most cases this can only be achieved with the provision of aids by Member States. However, the danger exists that such aids will drive back market forces and that the economic selection of the most competitive yard will become a matter of only secondary importance. Furthermore, a situation should be avoided where ships for which there is no commercial demand are built on the basis of an uneconomic accelerated aid level, such as building ships for stock.

On the other hand, there should be no doubt, and this is expressed in the Council Resolution of 19 September 1978, that the shipbuilding industry is of strategic importance for the Community and that a healthy and competitive shipbuilding industry whose scale of activity is consistent with the size of the Community's maritime trade should be maintained. However, this cannot mean employment guarantees for every single firm, but it does mean that attention will be given to improving the sector's position and that some framework of national measures, which have to comply with the principles of the common market, may be introduced in order to give the viable part of the shipbuilding industry a chance of survival.

Outlook and action to be considered

5. It is obvious that in most Member States this long-term strategy for the sector is to be accompanied by additional short-term and medium-term measures, mainly on the demand side and in the social and regional field. These measures are to be taken first and foremost by the Member States within the limits of their existing economic potential and in compliance with the principles of the common market.

The Commission will continue to monitor these activities. As far as social aspects are concerned, the Commission has discussed these with the two sides of industry.

In this context it may be noted that the social and regional implications of the shipbuilding crisis are of the utmost importance. If the situation of the sector cannot be stabilized to a certain extent, there is a real danger that the problems involved will not be solved without serious social unrest.

In 1978 an amount of 20 million EUA was made available under Article 375 of the budget for measures in support of crisis sectors. This amount has been transferred to the 1979 budget, but so far the Community has not been able to avail itself of this amount, pending the Council's decision concerning adoption of the regulations proposed by the Commission.

The present situation of the industry can be summarized as follows:

– Since the Commission submitted its Communication to the Council in December 1977 regarding the reorganization of the sector, the situation has worsened to a greater extent than was expected at that time.

– Employment for an important part of the present workforce is at risk unless a certain minimum new order intake by Community shipyards can be maintained.

– The economic situation of shipyards has worsened, newbuilding prices are still being depressed and shipyards' reserves are running out.

– The danger exists that important parts of the industry may run down abruptly.

– Restructuring is a long process, and a minimum workload is necessary for smooth adaptation of capacity.

In the light of results in relation to the various market forecasts already published, however, it must be considered that only very limited prospects exist for a recovery of the shipbuilding market in the short term. The development of the order books in Member States has shown that in the past single short-term projects were insufficient to generate the necessary new order intake for the shipyards in spite of the high subsidies provided from public sources.

Considering all these aspects, the Commission intends to continue and intensify its relations with Member States as well as its informal contacts with the circles involved (shipbuilders, shipowners, unions) in order to identify suitable measures that could be taken in the particularly difficult situation with which the sector is confronted.

The Commission has already examined ways and means of improving the demand situation and a communication regarding a proposal for a scrap-and-build programme will be submitted to the Council. This programme would also have favourable social implications for the sectors involved.

European Communities - Commission

Shipbuilding — State of the industry and crisis measures

Supplement 7/79 - Bull. EC

Luxembourg: Office for Official Publications of the European Communities
1980 - 29 pp., 11 tab. - 17.6 × 25.0 cm
DA, DE, EN, FR, IT, NL
ISBN 92-825-1689-X
Catalogue number: CB-NF-79-007-EN-C

BFR	DKR	DM	FF	LIT	HFL	UKL	USD
60	10,60	3,80	8,80	1 700	4,10	1	2

To prop up demand in the shipbuilding industry, one of the hardest hit by the crisis, the Commission advocates a scheme to promote the scrapping and building of ocean-going ships, the main purpose of which is to limit the effects of any worsening of the situation.

It was prompted to recommend the scheme by the conclusions in its first report on the state of the shipbuilding industry in the Community.

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OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

ISBN 92-825-1689-X

Boîte postale 1003 — Luxembourg

Catalogue number: CB-NF-79-007-EN-C