

European Communities

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EUROPEAN PARLIAMENT

# Working Documents

1980 - 1981

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12 December 1980

DOCUMENT 1-638/80

## Report

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

**on the proposal from the Commission of the European Communities to the Council (Doc. 1-472/80) for a directive on aid to shipbuilding**

**Rapporteur: Mr R. DELOROZOY**



By letter of 7 October 1980 the President of the Council of the European Communities optionally requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a directive on aid to shipbuilding.

The European Parliament referred this proposal to the Committee on Economic and Monetary Affairs, which on 21 October 1980 appointed Mr R. DELOROZOY rapporteur.

The committee considered the proposal at its meetings of 29 October and 25 November 1980; at the latter meeting the committee adopted the motion for a resolution by 10 votes to 1 with 2 abstentions.

Present: Mr Delors, chairman; Mr Delorozoy, rapporteur; Mr Beazley, Mr Beumer, Miss Forster, Mr I. Friedrich, Mr Herman, Mr Leonardi, Mrs Moreau, Mr Purvis (deputizing for Mr Hopper), Sir Brandon Rhys Williams, Prince Sayn-Wittgenstein-Berleburg and Mr von Wogau.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION.....	5
B. EXPLANATORY STATEMENT.....	8
ANNEX .....	12

A.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on aid to shipbuilding

The European Parliament,

- having regard to the proposal from the Commission of the European Communities<sup>1</sup>,
  - having been optionally consulted by the Council (Doc. 1-472/80 ),
  - having regard to the Council Resolution of 19 September 1978 on the reorganization of the shipbuilding industry<sup>2</sup>,
  - having regard to the most recent report from the Commission on aid to shipbuilding<sup>3</sup>,
  - having regard to the Commission's report on the state of the shipbuilding industry as at 1 January 1980<sup>4</sup>,
  - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 1-638/80 ),
1. Notes that there has been success in achieving a planned reduction in production capacity in the shipbuilding sector, though not all Member States have contributed equally in this respect;
  2. Points out that the future of several firms in the Community's shipbuilding industry and the jobs of tens of thousands of people are still constantly under threat; stresses therefore the need for the two Member States in which the structure of the sector has changed least in recent years to bear their share of the burden and to speed up their restructuring programmes;

<sup>1</sup> OJ No. C 261, 8.10.1980, p.3

<sup>2</sup> OJ No, C 229, 27.9.1978

<sup>3</sup> COM(80)289 final

<sup>4</sup> COM(80)443 final

3. Notes also that the Community's directives on aid to shipbuilding have contributed over the years to making national aid schemes easier to monitor and to restricting distortions of competition; regards the present proposal as a further step in this direction;
4. Reiterates how urgent and important it is for the Community to develop a sectoral structural policy covering the interdependent sectors of shipping, shipbuilding, ship-repair and trade policy; believes, therefore, that the rules governing Member States' aid to shipbuilding should be seen as part of such a structural policy; further recalls the Commission's earlier proposals for using the Regional and Social Funds to alleviate the regional and social consequences of restructuring; calls on the Commission to draw up specific proposals for implementing the scrap-and-build programme which it elaborated in 1979;
5. Regrets that the Community policy regarding shipbuilding does not comprehensively cover the many different ways in which national assistance or preference can distort competition and therefore the rational restructuring of the industry. In particular the exclusion of military shipbuilding and oilfield equipment, and the national procurement thereof, leaves ample opportunity for propping up inefficient yards and not rewarding those that have restructured. Furthermore, the lack of transparency in purchasing decisions by governments and nationalised industries leaves many doubts as to the efficacy of this narrowly defined measure;
6. Agrees that in the present situation it is hardly possible to arrive at completely uniform systems of aid in the Member States, but stands by this as the aim in the long term; regrets, however, that the aims of the earlier directives on aid to shipbuilding have not been achieved and that, furthermore, the various types of aid schemes in the Community have increased in number and scale;
7. Attaches the utmost importance to the provision contained in Article 11 concerning the prior approval by the Commission of aids planned by Member States;
8. Recalls that in most Member States the limit for cutbacks in capacity has almost been reached; calls on the Commission in the light of this fact to ensure that the production aid permitted under Article 6 also meets the criterion of degressivity in the cases involved;

9. Points out that the time is approaching for the number of aid schemes to be reduced and for a greater degree of uniformity to be sought in the amount of aid granted by the Member States; calls on the Commission to draw up its proposal for the next directive, which will enter into force on 1 January 1983, having regard to these considerations; aid to the shipbuilding industry cannot be granted through the Community budget during this period;
10. Urges the Commission to submit proposals to the Member States for restructuring and creating a dynamic framework for this industry such as will make the sector competitive in the long term without resorting to permanent subsidization;
11. Approves with these comments the Commission's proposal for a directive to apply from 1 January 1981 until 31 December 1982.

EXPLANATORY STATEMENT

1. Because of the very short time available for drafting this statement will necessarily be brief. A report had to be drawn up on the Commission's proposal for a directive on aid to shipbuilding so that Parliament could deliver its opinion as soon as possible. In actual fact, in this case the Council is not obliged to await Parliament's opinion. It will be easier to consider the proposed directive if we refer first to the report on the state of the Community shipbuilding industry which provides a detailed appraisal of the situation of shipbuilding as at 1 January 1980.

2. What is the aim of this fifth directive?

The fourth directive on aid to shipbuilding is due to expire at the end of 1980 and we may well find ourselves in a dangerous vacuum unless a new directive is adopted to replace it. The aim of this directive is to specify which aids can be considered compatible with the rules of the Common Market under Article 92 of the EEC Treaty, to ensure that a certain discipline is exercised in the selection of aids and above all to rule out any practices which might distort competition between the Member States.

However, the directive is not confined to these objectives. It also seeks to encourage the Community industry to persevere with structural changes which are essential if it is to survive not only in the market as it now is but, above all as it will be in the foreseeable future. It is clear from the Commission's report on the situation of the shipbuilding industry as at 1 January 1980 that important changes have already taken place in several stages between 1975 and the end of 1979. Employment in the shipbuilding sector has fallen considerably; the same is true of production capacity. However the progress made in restructuring has varied greatly from one Member State to another, some states having advanced much further than others which still have a long way to go. These efforts to adjust are often complicated by problems arising from the political situation or social local and regional difficulties. In overall terms it can be said that the world market is still in a state of crisis, marked by a level of demand which, after rallying slightly in 1979, is once again very low, a fact which merely serves to make competition for those orders which are available even more fierce. A slight upturn in demand was recorded in 1979: unfortunately the current medium-term forecasts are rather different and it seems reasonable to expect that the level of new orders coming into Community shipyards in the years ahead will be more or less the same as at present without much prospect of change.



There is therefore no serious reason to expect any market developments that will alleviate the critical situation in this industry.

As regards prices, which have a major effect on competition, it is to be feared that given the way in which the market is shared between the Far East, Central Europe and Japan in particular, competition in this area will continue and that at the same time some falling off in commercial demands will keep freight rates low. During the first half of 1980 new orders received in the EEC amounted to only 1.1 million GRT and it is unlikely that last year's level of 2.6 million GRT will be reached (see annex). A total volume of roughly 2.2 million GRT seems more realistic. It should also be noted that orders completed in the EEC in 1979 amounted to 3.0 million GRT.

It is therefore clear that the process of adjustment undertaken by the Member States under the fourth directive will have to be actively pursued.

3. Given the situation in the industry in the Community as a whole, aid will be required for a further period. However, thanks to work already completed, the level of aid required will not necessarily be the same throughout the period. However, under these circumstances there is no doubt that the Commission will have to continue to ensure that a certain internal discipline is observed as far as aid is concerned. This is necessary to ensure that Member States shoulder the burden of this crisis and the attendant difficulties as equitably as possible. Above all, the measures taken by the Member States must not have the effect of artificially prolonging certain situations, which would happen if they failed to reduce production capacity but sought instead to act on prices by paying abnormally high aid. Furthermore, the experts from the Member States have themselves agreed on the need for this new directive to come into effect upon expiry of the present directive, i.e. on 1 January next. They also accept that the Council's recommendations in this field contained in its resolution on the reorganization of the shipbuilding industry of September 1978 remain valid. The proposal for this fifth directive was drawn up after intensive consultations with the experts during multilateral meetings. On the whole it follows the line of the fourth directive but improves on it by including certain aids not previously granted. Lastly, the life-span of the fifth directive is relatively short. Limited to two years, it will allow earlier consideration of the measures that will have to be contemplated at a later stage, regardless of the Commission's annual progress report; in this way, it will be possible to take new decisions on the basis of the actual situation.

4. As regards the general approach of this directive, it is to be noted that aid to production, a category of aid which obviously stands to have the most immediate distorting effect on competition, is seen as acceptable solely as a method of combatting the crisis which this industry is going through and as a way of allowing it sufficient time to adapt.

The ultimate aim is to enable Community shipyards to carry out adjustment of capacity and modernisation which is necessary if in the long run their prices are to be competitive with those of third countries. By means of exceptional specific measures. The directive also sets out to ensure that the market does not shift too much as a result of orders passing from one Community shipyard to another if not from one state to another, since serious sectorial repercussions could ensue especially as regards the level of employment.

The directive also aims at preventing a situation from arising where the granting of aid to ship-owners instead of to shipbuilding might indirectly result in a different form of support, the real effect of which would be to introduce a new factor to distort competition. The directive contains a provision enabling the Commission to determine whether this is in fact the case. Aid to ship-owners does in fact have a palpable effect on the placing of orders for ships and experience has shown that this extra support resulting from aid to shipowners has in some cases prompted Member States to ensure that orders are placed almost exclusively with national shipyards. As a result, these aids have a similar effect to that of shipbuilding aids and it is therefore logical that this type of aid should not escape the discipline applied in respect of other aids because it has a similar effect. The directive also contains provisions designed to control another category of aid granted in the form of coverage of losses incurred by shipbuilding concerns. There is a complete lack of transparency as regards this type of aid because it is a matter of acknowledging a situation after the event, hence the fear felt by some Member States that it in fact amounts to a way of granting aid to categories of production which if not excessive are at least too much for the market. It emerges from the explanatory memorandum to the draft directive that if aid to production at a rate of 25% is granted in respect of a contract and to this is added an additional company loss of 10% covered by a direct state aid, the total shipbuilding aid is then not 25% but 35%. The Commission wants to prevent such artificial practices from weakening the effort which shipyards must make in order to reduce their losses by undergoing a certain restructuring to become more competitive.

5. The new directive therefore still follows the same basic principles, i.e. reorganization and greater efficiency in the Community shipbuilding industry in order to enable it not only to exist but to retain a certain position on the world market. The Commission also acknowledges that in certain Member States serious restructuring has already been carried out and that in areas where major efforts have already been made further reductions in capacity will be limited. However, if restructuring cannot be continued at the same rate, it is nonetheless necessary to adhere to the overall criterion of restructuring as regards the granting of aid. These Member States will therefore have to continue to show that the aid offered does remain linked to the restructuring plan. In this respect it will therefore be necessary to place a more flexible construction on the concept of restructuring contained in this directive by laying stress on all aspects of organization and rationalization rather than by limiting matters to simply controlling or examining reductions in production capacity which cannot be seen as an end in themselves.

6. The decline in orders and the continuous restructuring of the shipbuilding industry mean that employment within this sector is falling steadily. Between the end of 1975 and the end of 1979, employment in the Community shipbuilding industry (construction of new merchant vessels) fell from well over 200,000 to barely 129,000. The fall in employment has, however, been comparatively less than the fall in production.

The fall in employment has been sharper in 1980 (see annex).

In this connection the rapporteur wishes to draw attention to a new provision in the Commission's draft, i.e. Article 5. The purpose of this article is to enable the Member States and the Commission to work together to combat the social and regional consequences of restructuring, which are particularly serious since shipyards are often located in declining industrial areas already beset by serious regional and social problems. The intention is that a certain sum from the Regional Fund should be set aside specifically for this purpose and furthermore that the national support mechanisms which are intended to cover the normal costs arising from the partial or complete closure of shipbuilding or repair yards should be deemed compatible with the rules of the common market.

Annex

Subject: Updating of report on shipbuilding: main  
developments since 1.1.1980

Pattern of orders

Even if total orders for the first half of 1980 have remained at a level similar to that of last year, their distribution has nonetheless undergone considerable changes. In fact the balance in the distribution of new orders between Japan and Europe, which had been more or less maintained between 1976 and 1979, shifted suddenly in favour of Japan in the early months of 1980 (see table).

New orders GT6 by zone (1000 GRT in %)

	1978		1979		first half of 1980	
	grt	%	grt	%	grt	%
JAPAN	3778	49	5206	52	3708	65
AWES	3334	51	4855	48	2026	35
of which						
EEC	1888	27	2639	26	1105	19

Source: OECD

The low level of the Yen has admittedly played a part in this development but certain measures taken by the Japanese authorities have also had an effect, including the increase in output quotas for the cartel formed by the 40 largest shipyards. For the 1981 financial year those quotas have been raised to 51% of the output of the years 73-74-75 as against 39% for the financial years 1979 and 1980.

The first effects of this increase in utilizable capacity from 3.8 million GRT to 4.7 million GRT are already being felt on order intake.

The impact of Japanese expansionism on the Community countries is likely to be all the more serious as it is occurring at a time when the market is in stagnation.

In the first half of 1980 the level of new orders in the Community was only 1.1 million GRT, and it is unlikely that the level of the previous year (2.6 million GRT) will be reached. An overall volume of around 2.2 million GRT seems a more realistic figure. It should also be noted that completions in the Community amounted to 3.0 million GRT in 1979.

Employment

As regards employment, figures supplied by the industry show that 11,000 jobs have been shed in newbuilding in 1980, a reduction of almost 9% in the workforce of 128,700 at the end of 1979. However, the total number of shipyard employees has only fallen by 8,000.

Prospects According to the latest AWES study published in JUNE 1980, the new tonnage requirements worldwide and contracting requirements for the periods up to 1985 and 1990 are as follows:

in million GRT	NEW TONNAGE REQUIREMENTS			CONTRACTING REQUIREMENTS from 1.1.80 to 31.12.83 for delivery during:		
	period 80-mid 85	mid 85- mid 90	80-mid 90	period 80-mid 85	mid 85- mid 90	80-mid 90
Oil tankers	12.0	8.4	20.4	6.6	8.4	15
Bulk carriers & combined car- riers	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 & chemical product car- riers	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
<b>TOTAL</b>	<b>82.2</b>	<b>109.6</b>	<b>191.8</b>	<b>56.5</b>	<b>109.6</b>	<b>166.1</b>
Annual average	14.95	21.92		14.1	21.92	
Annual average 1978 AWES study (1978-1985)				12.5		

According to this study, annual world production should remain stable at the 1979 level (14.1 million GRT) over the next three years, then increase steadily to reach 15 million GRT in 1983, 20 million GRT in 1986 and 24 million GRT in 1990. The level of production for the years 1975-77 (21 million GRT) should therefore be passed between 1987 and 1990.

Although slightly more optimistic than those appearing in the 1978 AWES study, these forecasts must be viewed with reservation, as they are based on a rate of growth in the GNP of the OECD countries of 3.2% over the period 1980-85 and 3.5% between 1985 and 1990 (OECD forecasts of November 1979). And these rates appear too high at the present time.

