

**Bulletin
of the European Communities**

Supplement 7/77

**Reorganization
of the Community
Shipbuilding Industry**

**Communication from the Commission,
sent to the Council
on 9 December 1977**

COM (77) 542 final
6 December 1977

Cover title: Shipbuilding: Reorganization Programme

Commission of the
EUROPEAN COMMUNITIES

This publication is also available in Danish, Dutch, French, German and Italian.

A bibliographical slip can be found at the end of this volume.

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Printed in Belgium 1978

Catalogue Number: CB-NF-77-007-EN-C

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Problems of Community shipbuilding

The crisis

1. The difficulties in new shipbuilding result from a world-wide structural imbalance between production capacity and demand; they are relatively worse for the Community industry on account of the competitive weakness of Community shipyards in comparison with non-European competitors.¹

Causes of the crisis

2. As a result of optimistic forecasts of the growth of the world economy, together with speculative demand, order books swelled unprecedentedly between 1960 and 1973.

In order to meet this demand world-wide production potential increased to such an extent that overcapacity would probably have occurred even without the oil² and economic crises.

To meet orders received in 1972-1973, annual world production in the period 1974-76 grew to approximately 33 million grt³ (equivalent to some 20 million cgrt⁴).

New orders, which determine the future level of activity, have fallen since 1975 to 13 million grt (and the same in cgrt).⁵ Given the extent of overcapacity in existing fleets, new orders will not even reach this level in the coming years. Japanese yards have for some time experienced a similar fall in activity, and, in their turn, are facing competition from yards in new shipbuilding countries (often established with the aid of Japanese capital).

3. Community shipbuilders have been subject to the same phenomena as others but, by depressing selling prices, the worldwide overcapacity brought Community yards down to their limit of competitiveness much earlier than their competitors.

Although production facilities in some Member States have been modernized, Community ship-

building is handicapped by unsuitable structures and by uncompetitive operating costs—the large number of yards in the Community prevent large-scale production as in the Japanese yards, which are virtually new and form part of integrated industrial groups, enabling them to withstand the hazards of the economic cycle. The need for structural adjustment is all the more urgent since Community yards have no hope of reducing social security charges which, in comparison with certain countries with a recently developed shipbuilding industry, are a handicap.

The consequences weigh particularly heavily on the Community.

4. At the same time the prospects for several sectors of the shipping industry are gloomy, giving little hope of the serious imbalance between available tonnage and market requirements being taken up before 1982; this is especially true for the tanker trade, but also for other trades such as bulk cargo. The statistics show⁶ that the Community's share of the world fleet has fallen from 25.1% in 1970 to 20.7% in 1976. It is true that the Community's shipping industry and its shipyards must remain, or be made, competitive in the world market. Community shipowners are not bound to the shipyards of the Member States; nevertheless, in practice our shipowners generally place their orders with our yards, hence the importance to these of the Community's having a competitive fleet.

The consequences of the crisis for the Community

5. At the present time, the Community industry accounts for 20% of world production. Assuming that the rest of the world's share remains constant, and that the shares of the world market held by the various countries in 1975 remain the

¹ See *Characteristics of the crisis in shipbuilding*, page 17.

² The oil crisis has mainly affected new building of tankers.

³ grt is a measure of volumetric capacity.

⁴ cgrt (compensated gross registered ton) takes account of the amount of work per grt.

⁵ The volume is the same whether expressed in grt or cgrt because there has been a drastic fall in orders for simpler vessels (tankers and bulk carriers).

⁶ Tables 1; 2 and 3.

Table 1 — *Production in grt as a percentage of world total*

	1955	1960	1965	1970	1975	1976
EEC	70.0	51.1	31.3	25.6	23.3	22.6
AWES ¹	80.0	73.8	50.8	40.5	38.5	37.5
Japan	12.0	21.4	41.5	48.1	50.6	46.7
Rest of the world	8.0	4.8	7.7	11.4	10.9	15.8

¹ AWES = Association of West European Shipbuilders (Community countries + Norway, Sweden, Finland, Spain and Portugal).

Table 2 — *Fleets in grt as a percentage of world total*

	1955	1960	1965	1970	1975	1976
EEC	35.4	33.5	28.6	25.1	22.9	20.7
AWES	47.5	46.9	43.0	37.9	35.9	32.9
Japan	3.7	5.3	7.4	11.8	12.2	11.2
Rest of the world	48.8	47.8	49.6	50.3	51.9	55.9

Sources : Production : for 1955, 1960, 1965 — DAFSA study; for 1970, 1975, 1976 — Lloyd's Annual Summary.
Fleets : Lloyd's Statistical Tables.
NB : Neither the Irish nor the Portuguese fleet was included in 1955, 1960, 1965 and 1970.

same,¹ AWES² experts forecast that Community yards will deliver 2.4 million cgrt in 1980, compared with 4.4 million in 1975—i.e. a reduction of 46%, while world production for the same period will drop by only 40%.

To the uncertainties inherent in any forecast must be added two contradictory factors, namely the low competitiveness of some shipbuilders (a factor becoming more important as the downturn in world demand sharpens competition) and the high degree of competitiveness of Community shipyards in building certain particularly sophisticated types of vessels. But in this sector of the industry we must expect the Japanese, in particular, to launch an offensive—according to the Japanese Minister for Transport and Industry, 'the Japanese shipbuilding industry, which has depended on tankers for more than 70% of its production, will have to shift more and more to special-purpose ships such as liquefied gas car-

Table 4 — *1975 production and 1980 production forecast based foreseeable demand*

	1975		1980	
	grt	cgrt	grt	cgrt
EEC	7.8	4.4		2.4
Rest of AWES	5.3	3.2		1.5
AWES	13.1	7.6		3.9
Japan	17.0	7.7		3.9
Rest of the world	4.2	4.2		4.0
Total, world	34.3	19.5	10.4	11.8

riers, etc. ... having higher technology and greater value added. Consequently shipbuilding in Japan would reach 14.7 million grt in 1985, recovering to the 1975 level'.³

In this context developments in Community production must necessarily affect the workforce in the shipyards and allied industries. It is already estimated that 15 000 of the 180 000 jobs in the shipbuilding industry in 1975 have been affected by the rundown of production.

Current measures aimed at providing work for yards

6. Aware of the crisis in the industry, but hoping for a recovery, the authorities are resorting to every possible approach to provide work for shipyards. So far, however, these measures have merely been costly palliatives with no medium-term prospects.

The national approach

7. Many firms have cut out virtually all overtime, introduced short-time working, reduced working hours, encouraged employees to leave

¹ See Annex, Table 4.

² AWES: Association of West European Shipbuilders (Community countries + Norway, Sweden, Finland, Spain and Portugal).

³ Long-term vision on Japan's industrial structure, Tokyo 1976, Chapter 7.

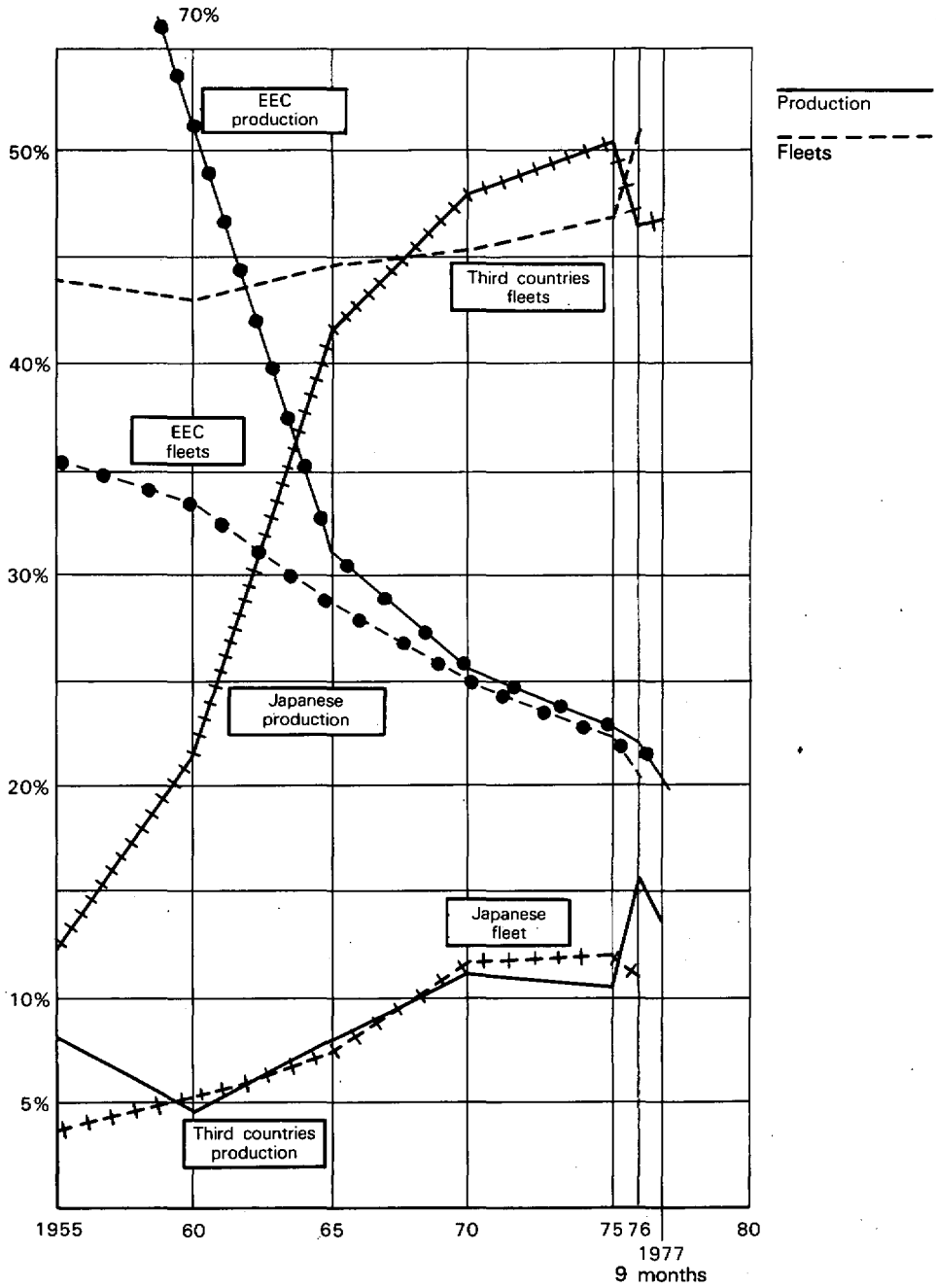


Table 3 — Production and fleets in grt as a percentage of world total

and cut recruitment to the bare minimum, but these steps are inadequate and, what is more, they are rarely part of a long-term strategy.

Left to their own devices the shipbuilding industries tend just to keep going, without attempting to adjust to the new market conditions.

The Member States themselves encourage this attitude by supporting their shipyards in various ways, mainly in order to keep the level of employment as high as possible.

National intervention of this type may take several forms: in some shipyards work is maintained by placing orders for naval vessels, when such are not reserved for naval dockyards, but in most cases intervention is financial.

Compared with the level of employment, the sums involved are considerable: Aid now being granted, mainly to overcome the price advantage of Japan and other shipbuilding countries, is estimated at nearly 600 million u.a. annually (including aid to shipowners in the Federal Republic of Germany and in the Netherlands, but not taking into account the hidden or unquantifiable help given in some Member States).

Total aid, which in its various forms, is essentially aimed at maintaining employment in the yards, will necessarily increase since the level of activity will inevitably continue to drop between now and the 1980s, and competition from non-member countries will probably grow. In most Member States financial help for the shipbuilding industry is supplemented by measures to support their own-flag fleets, and these may vary widely from one Member State to another.

The international approach

8. Under the auspices of the OECD, the Member States, together with the other AWES countries and Japan, signed on 12 May 1976 the 'General guidelines for government policies in the shipbuilding industry' whose first priority is the reduction, in an appropriate manner, of production capacity in order to restore in the medium term the balance between supply and demand; the principle adopted is that of maintaining fair competition.

This action under the OECD is coupled with approaches to Japan. The Member States warned their partners against the possibility of Japan's failing to bear a sufficient share of the consequences of the crisis, and threatened to adopt unilateral protective measures. These pressures have led Japan to raise its export prices by 5% and introduce some measures of voluntary restraint *vis-à-vis* some European countries. But these measures seem insufficient to bring back balance into the market.

The Community approach

9. The Community's interest in the problem of shipbuilding has two aspects:

— competition: so far Community action on the industry has been almost entirely limited to successive directives coordinating aids to shipbuilding. Their main objective was to harmonize public intervention in the sector and reduce the level of those aids most damaging to intra-Community competition;

— financial: since its inception, the European Regional Development Fund (ERDF) has paid out an estimated 78.65 million u.a. in regions where there is a high concentration of shipbuilding. The sum covers 225 projects involving a total investment of 1 470 million u.a. and the creation or preservation of 34 112 jobs in France, Germany, Italy, and in the United Kingdom where, in addition, 111 industrial-infrastructure projects have been aided in the said regions.

Intervention by the Social Fund to benefit workers in the industry has been modest and the Council did not take up the Commission's proposal for applying Article 4 of the decision on the use of the Social Fund,¹ submitted in January 1974.²

¹ OJ L 28 of 4.2.1971.

² OJ C 13 of 12.2.1974.

The objectives of Community intervention

10. The Community, as the world's leading trading power, 90% of whose trade is seaborne, has a major interest in conducting a maritime policy which makes it commercially competitive.

Commercial competitiveness depends partly on a competitive Community fleet. Such a fleet is potentially a market for Community yards if they can supply it on terms competitive with those offered by others.

The first objective of Community policy on shipbuilding must therefore be to make our yards competitive in the world market.

The Community's attention should be directed chiefly to the new building of seagoing non-naval ships,¹ since this is the segment of the industry in which the structural problem of overcapacity and competitiveness is acute. The other sub-sectors, while less affected by the structural problem, are more sensitive to the short-term economic situation.

Community strategy should concern itself with coordinating the means at present available to the Community and concentrating them on achieving a predefined objective. The aim should be to reorganize Community shipyards, so that they are competitive in the world market and consequently able to provide a significant proportion of the Community fleet. Independence of Community shipowners from yards in third countries is essential for the security of the Community's supply in view of the importance of sea transport to its external trade—and for the maintenance of the Community's share of world trade.

As the cost of transport is a very important factor in the Community's economy, the Commission does not consider that the interests of the shipping industry should in any way be subordinated to those of shipbuilders. The Commission considers that action by the authorities in areas of interest common to both industries is an essential element in implementing an overall strategy for shipbuilding.

Reorganization of the industry should be based on the realities of the market, and the expected

level of demand should be the datum point for any action at Community or national level.

On the basis of the information quoted in Part One above, the level of demand should be approximately 2.4 million cgrt in the early 1980s; this estimate must be checked with the Member States and regularly adjusted to market developments.

In view of the present imbalance between supply and demand for certain types of ships, the attainment of a general production aim geared to foreseeable demand is contingent on the adaptation of production structures, the redeployment of labour and the stimulation of demand.

Adaptation of production structures

11. There should be a quantitative and qualitative adjustment of structures to foreseeable demand; this should also extend to directly related industries.

— Quantitatively, it will be necessary, in the industry's own interests as well as in the interests of the workers whose jobs in the shipyards will otherwise disappear entirely, to adjust production capacities to market prospects in an orderly fashion.

— Qualitatively, moves to adapt production capacities quantitatively must be accompanied by efforts to improve production facilities so that they may survive without aid and become competitive in the world market.

Redeployment of labour

12. As it is impossible to maintain the present level of employment of some 165 000 persons any action to reorganize the industry that does not take into account the social aspects of the

¹ At this stage it does not seem appropriate to include warships because the building of these highly sophisticated vessels is not affected by the crisis.

exercise and seek to limit the effects on the labour force will be doomed to failure.

13. Once the objective of reorganization has been defined for the industry, the consequences for employment must be drawn; these will be of two kinds:

- the retraining of workers within yards where the latter undertake internal conversion as part of the qualitative adaptation of production facilities;
- redeployment outside the industry: here the Community should bring into play all its resources for creating jobs outside shipbuilding, both within the yards themselves and, more particularly, for those made redundant, every effort being made to site the activities in the same district or region as the affected yards, so that these new activities may benefit from the skills of the workers concerned; this process of creating new job must be accompanied by suitable social measures.

In view of an expected level of demand of about 2.4 million cgrt in the early 1980s, the Commission estimates that an effective restructuring operation in this sector could affect approximately 75 000 jobs,¹ 15 000 of which it is estimated will be vacated by natural wastage. If the operation is extended to directly related industries, these would be affected in the same proportion which would make approximately 30 000 persons redundant.

14. As such results can only be achieved gradually, it will be necessary to continue to resort to holding actions which are essential for the direct or indirect support of employment.

The Commission considers that, if the objective is to be achieved, Community action would be acceptable to the general public and to the workers only if it takes full account of the different situations in the industry in each Member State, and the position the industry occupies in the economy of the Member State or region. Whether this operation will be used to demonstrate the Community's solidarity will depend on the political will of the Council.

Stimulating demand

15. The prospects generally agreed upon for shipbuilding in the Community presage the possibility of the industry's dwindling away, leaving the shipbuilders of non-member countries in a dominant position on the market and capable of taking action to the detriment of the Community fleet. In addition, the transfer of a significant proportion of the world fleet to flags of convenience has brought into the shipping market vessels which present both operating hazards (substandard ships) and a threat to the marine environment; and they are subject to social regulation which are unacceptable as far as the Community's labour laws are concerned.

16. International bodies are already trying to devise means of combating this form of unfair competition. The Community should step up the action it is already taking in this direction by taking steps towards the adoption of practical measures in the near future.

- Certain environmental protection measures could lead to a partial reduction of the excess capacity in tanker fleets and also appreciably stimulate the conversion of existing tankers.²

- More stringent safety regulations would remove unfair advantages enjoyed by ships of non-member countries, particularly those registered under flags of convenience, and thus act to the advantage of the shipbuilding industry, either directly (conversions and repairs), or indirectly (ships would be scrapped more quickly, and this would speed up the improvement of the transport market). Such regulations could also limit the trend for our shipowners to register their vessels under flags of convenience.

17. Owing to the unshakeable advantage of certain competing shipbuilders, at least in the short term, market forces will not ensure that certain types of ship are competitive on the international market—and this already seems to be the case

¹ See *Inventory of finance requirements for reorganizing the shipbuilding industry*, page 19.

² See point 27.

for tankers and bulk carriers—despite restructuring and despite the measures referred to above.

Measures may therefore have to be taken to forestall the potential dangers of a situation where certain shipbuilding countries have a monopoly.

18. These should be supplemented by others to counteract unfair competition resulting from the freight rates charged by the merchant fleets of State-trading countries.

Community action

19. The Commission intends to direct all appropriate means of action to serve the objectives defined above.

These objectives will not be attained unless:

— since (private or public) initiatives in the Member States do not cancel one another out the Commission continues with, and steps up, its measures to make these initiatives less opaque and to coordinate them;

— the intervention concentrates less and less on maintaining hopeless situations and turns increasingly to re-establishing maximum efficiency in the undertakings and, above all, to creating new jobs in other activities;

— contacts with all the parties concerned are maintained and strengthened; the Commission is already in regular contact with employer managerial and trade union bodies and these contacts should be intensified; also, to obtain a clearer appreciation of the possibilities of meeting the type likely to face Community shipyards, these contacts should be extended to the industrial and trade union organizations concerned with Community shipping;

— there is greater, permanent concertation between the Community's public authorities under Community auspices and with due regard for the spheres of competence deriving from the EEC Treaty;

— Community action continues, with appropriate procedures, throughout the crisis situation in the industry.

Reorganization of the shipbuilding sector

20. The objective of reorganizing the sector is contingent upon the determination of a quantitative 'indicator' of the level of demand to which the shipbuilding industry's production capacity should be geared.

This 'indicator' should be geared to demand—estimated at approximately 2.4 million cgrt for the

early 1980s; for subsequent years it should be determined as the market evolves and in consultation with all the parties concerned.

The progressive tailoring of production capacities to this overall illustrative objective over a five-year period would result from actions by the parties concerned to adjust to market developments and will also determine the various steps required for reorganizing the industry.

Action to coordinate aids

21. In order to avoid the situation whereby national aids granted to undertakings—in the ever-vain hope of a recovery in the near future—divert the recipients' attention from the need to modernize their production facilities—a necessary condition of stability in Community shipbuilding—the Commission, in its proposal for a fourth directive, sought to coordinate these aids with a view to reorganizing the sector in a manner consistent with the quantitative indicator.

With previous directives the Community tried to remove those barriers to competition in shipbuilding which were not in the common interest. The directives therefore covered a very wide range of aids affecting the shipbuilding market.

Against the current background of imminent crisis in the industry the Commission has now made proposals specifically geared to enabling the Member States to deal with the situation.¹

Such measures are, however, acceptable only within limits and only in so far as they do not worsen conditions of competition to an extent prejudicial to the common interest.

Measures of this type must also be in line with the reorganization objectives, the aim of which is to make the industry competitive and capable of functioning without aid.

The Commission's proposal for a fourth directive, sent to the Council on 4 November 1977, takes abundant account of the industry's structural problems and should therefore not be regarded simply as a legal framework for limiting the granting of aids but as an essential element of an industrial approach.

The proposal also covers Member States' aids to shipowners and provides that such aids may not discriminate against shipyards of other Member States.

Actions in the social sphere

22. Although it is not precisely known what will be the social impact of the crisis in the shipbuilding sector and related industries (particularly at regional level), special social measures will be required.

Taking into account existing national and Community measures, proposals for new measures could be put forward once the social problems caused by the crisis itself and the consequences of the Community programme have been studied in depth with the help of the interests concerned. Social measures will be drafted in discussions held in the Community institutions. Apart from any new aids, the Community can already intervene by means of the European Social Fund which, within the limits set by the current rules, can grant financial aid to vocational retraining schemes for persons whose jobs are affected by the restructuring or conversion of shipyards.

Where the employment situation is affected or threatened, the European Social Fund could also intervene through special measures approved by the Council under a Community policy for the sector, or by means of special measures to promote the achievement of the industrial policy objectives for the sector.

Financing

23. A tentative estimate² puts the total cost over a five-year period of reorganizing the Community's shipyards and related industries specializing in work arising exclusively out of shipbuilding at approximately one thousand million u.a. per year.

Most of this would be for creating new jobs outside the industry.

¹ Bull. EC 10-1977, point 2.1.19.

² See *Inventory of finance requirements for reorganizing the shipbuilding industry*, page 19.

Restructuring and conversion depend in the first instance on the industry's own initiative, but this must be encouraged by the Member States' making targeted use of the funds already allocated by them to shipbuilding; the Community should also use its financial resources to encourage such initiatives.

24. Community involvement in these operations would be secured by:

— allocating to shipbuilding a proportion of the appropriations for industries undergoing conversion to be included in the Communities' budgets in future years;

— European Investment Bank intervention in line with, and for the purpose of achieving Community objectives. Coordination with the EIB would be ensured by means of statutory links, the current practice of informal working liaison and possibly by arranging for the EIB to be represented on the coordinating bodies;

— Community borrowing, to which the Commission attaches great importance as a means of stimulating investment;

— the Community participating financially in any new social measures that prove necessary, and by using:

- the Social Fund for projects to retrain workers and for vocational training; and
- the Regional Fund (ERDF) for schemes for further restructuring and conversion; in both cases within the limits on the Funds.

25. The ERDF allows aid to investments in and outside the shipbuilding industry as long as the zones involved and the investments are already the subject of national aid for regional ends. Scope for intervention by the ERDF would be extended through the 'off quota' section proposed by the Commission if, in conjunction with the Member States, it proves possible to undertake schemes specifically aimed at creating new jobs in those regions and zones where the effect of the reduction of shipyard capacity on the existing employment situation is to create a problem which has already sufficiently serious regional aspects.

Concertation by all the authorities involved, and regard for local situations, should also permit ac-

count to be taken of the specific features of a situation and combined use to be made of all available instruments, thus ensuring maximum coordination and efficiency in implementation.

26. Coordinating the various instruments, both with respect to time and their application—i.e. planning Community action—would derive from the concertation needed between the parties concerned, the authorities in particular. However, it would appear, particularly in the present economic context, that quite a time will elapse before conversion schemes can be mature. It is therefore essential that resources for improving the efficiency of the shipyards, particularly part of the appropriation for industry and transport entered in the Community Budget for financial year 1978, should be spent immediately, and the necessary holding operations for preserving jobs conducted at the same time.

Stimulating demand

27. In its environmental programme of 17 May 1977¹ the Council acknowledged the importance of stronger action against marine pollution. The IMCO² and OECD have done studies on this, in particular pollution caused by ships (*introduction of segregated ballast tanks*). The United States has shown great interest in the swift adoption of strict measures of this kind.

If the Community followed suit this would create more demand for the yards to meet while helping to prevent marine pollution.

Nevertheless the introduction of such measures, the time taken to bring them into force, and their scope, should depend on the cost-benefit studies currently being made.

28. In order to prevent unfair competition, action should be stepped up against ships which do not meet *minimum safety standards* or do not observe *minimum social rules* by introducing, or strengthening, appropriate measures at Commu-

¹ OJ C 139 of 13.5.1977; Bull. EC 12-1976, point 2227.

² IMCO — Inter-governmental Maritime Consultative Organization.

nity level, either unilaterally or internationally (e.g. banning ships from Community ports if they do not comply).

29. The Council is discussing various possible forms of action at Community level relating to sea transport. Should these materialize as practical measures aimed at strengthening the position of the fleets of the Member States in world markets, they could indirectly strengthen the position of the shipyards. The Council has already held discussions, at the Commission's initiative, on the practices of certain State-trading nations. A number of measures are being considered and will be embodied in appropriate proposals which may in some cases go so far as to limit the involvement of these countries' fleets in certain types of transport to Community destinations.

However, the Commission does not suggest that the interests of the shipping industry and shippers should be subordinated to those of shipbuilders. The shipping industry exists to carry the world's trade, the shipyards to build the ships it needs for this purpose. The health of the Community's shipping industry in world markets, and of the trade it carries, require that our shipowners must be free to order their vessels wherever the terms appear to them to be most advantageous, once the Community's shipyards are again competitive.

International action

30. Using the efforts to reorganize the industry as a starting point, the Community should step up action at international level to get its partners to make a similar effort towards the balanced reduction of the world-wide overcapacity and the elimination of factors unsettling the market.

The Community must take an even greater part in work in hand in international organizations concerned with problems likely to have a direct or indirect effect on the shipyards' level of activity. It must also strengthen cooperation within the OECD to ensure a more equitable spread of orders.

Nevertheless, it would be unrealistic to expect satisfactory results from organization of the market by negotiations within the OECD.

Conclusions

31. The Community is now facing problems which affect many industrial sectors. Therefore action on shipbuilding must have due regard for considerations relating to a more comprehensive approach to these problems. But the Commission considers that action on shipbuilding is now urgently required; it cannot await the formulation of a comprehensive approach to the crisis, but must also be without prejudice to the outcome of reflections to this end.

The points set out herein lead the Commission to the opinion that present practices to support shipbuilding will prove inadequate in the very near future to stem the consequences of the structural crisis affecting the industry.

The points in questions do not permit a detailed action programme to be mapped out; this must, in any case, flow from extensive concertation; but they provide even now a sufficient basis for a number of fundamental policy guidelines, to be supplemented at operational level by decisions the Council could be called upon to take at a later date. Proposals for decisions which may be required will fall within the context of the six-monthly reports which the Commission will compile from July 1978.

The Commission therefore now requests the Council to adopt the following resolution:

The Council,

— taking note that it is now estimated that in the early 1980s demand for new vessels which could be met by shipyards in the Community will be approximately 2.4 million cgrt;

— has decided that capacity for the new building of ships must be fixed with regard to the market situation and that shipyards must be enabled to achieve a satisfactory level of competitiveness by conversion outside the industry and, in any event, by improving production facilities, management and research;

— request the public authorities concerned with the problems of the industry at local, national

and Community level to put the emphasis on the creation of new jobs to replace those progressively lost in the new building of ships;

— has decided to set up, in order to permit a better understanding of the sector and of its problems at Community level, a standing body in the form of a committee of senior officials briefed to contribute to the progressive adjustment of production capacities to demand, as far as possible on the basis of national programmes, but taking account also of changes in forecast world-wide supply and demand and of progress with the creation of new jobs; the process of adjusting capacities will also take account of the results of international studies dealing both with general problems and matters specific to shipbuilding;

— notes that the Commission will submit as soon as possible proposals for additional social measures;

— notes that from July 1978 the Commission will draw up six-monthly reports on the state of and progress with the reorganization of new merchant shipbuilding, having regard among other things to the points set out in this Communication and will submit appropriate proposals for decisions at the earliest possible date.

Annex

Characteristics of the crisis in shipbuilding

Sea transport

Since 1975, in the wake of the world-wide economic recession persisting since 1974, there has been a considerable drop—for the first time in 15 years—in demand for sea transport.

Table 1 — Trends in the volume of world-wide sea transport

(in million tonnes)			
Year	Dry cargo	Oil	Total
1960	540	540	1 080
1965	780	860	1 640
1970	1 110	1 420	2 530
1974	1 450	1 800	3 250
1975	1 400	1 690	3 090

This has left a large surplus of tankers. The situation has been further aggravated by deliveries of substantial tanker tonnage during 1975 and 1976, against orders placed before 1973 which it had not been possible to cancel or convert into orders for other types of vessel.

Thus, despite the many orders for tankers that were actually cancelled, it is estimated that surplus tonnage is at present approximately 140 million deadweight tonnes (dwt).¹ In consequence, freight rates have fallen below break-even point and do not fully cover operating costs, excluding depreciation. According to the latest forecast it is to be feared that the market will be unable to take up the surplus tonnage before the mid-1980s.

As regard general cargo, the increase in shipments to the Near East has to some extent compensated for the drop in traffic between industrialized countries.

However, it is the carriage of dry bulk cargo that has been hardest hit since 1975 by the economic crisis. As a result dry bulk freight rates have also dropped to a very low level. And during 1975 and 1976 many orders for tankers were converted to orders for bulk carriers, deliveries of which are now beginning.

Situation in the shipyards

The enormous surplus of tankers and the threat of serious overcapacity in bulk carriers has led to a noticeable drop in ordering since mid-1974, particularly of tankers, but annual world production was still 33 to 34 million grt in 1975 and 1976 as a result of orders in hand from 1972 and 1973. In 1977 production will still be some 30 million grt.

The situation is the more serious because the types of vessel most affected by the consequent decline in order books are those that have provided the main workload for most shipyards. Tables 2 and 3 make this clear.

Table 2 — Breakdown of the world fleet by type of vessel

(in million grt)					
Where registered	Type	Tankers	Bulkers (dry and OBO)	Other vessels	Total
EEC		37.2	17.7	22.4	77.3
World total		168.2	91.7	112.1	372.0

Source: Lloyd's.
Situation on: 1 July 1976.

Table 3 — Tonnage delivered, by type of vessel

(in million grt)					
Year	Type	Tankers	Bulkers (dry and OBO)	Other vessels	Total
1975		22.7	6.2	5.3	34.2
1976		19.9	7.9	6.1	33.9

Source: Lloyd's.
Situation on: 31.12.1975/76.

This has forced shipyards to cut prices considerably to obtain an essential minimum of orders. The Japanese have been better able to cut prices than European shipyards, which has added a new element of competition.

The various forms of aid currently granted by most governments to enable their countries' yards to accept orders, at

¹ Dwt is a measure of carrying capacity, in tonnes.

prices which do less and less to cover costs, have had the effect of maintaining temporarily an artificial level of demand. Moreover, the impression is that not a few recent orders have been placed simply because prices are so low, thus, in fact, anticipating the shipping market's future needs, particularly for bulk carriers.

Compared with an annual world production in recent years, of upwards of 30 million grt (approximately 20 million cgrt), orders since 1975 have dropped to 13 million grt (approximately 13 million cgrt because the types of vessel are different). It is highly probable that orders will not even reach this level in 1977, and will fall further in the following three or four years. According to the available data, demand will probably be so low up to the beginning of the 1980s that the shipyards' level of activity will tend to settle at two-thirds to half that of 1975.

Forecasts

Assuming an average GDP growth of 4% for the period 1976 to 1985, the market will probably recover towards 1984. If the growth rate is lower, recovery will be delayed for a few years.

In the Community, this recovery will bring an upturn in activity in shipyards, but at what level it stays will depend largely on the determination with which the industry and the authorities face up to competition on the world market.

On the subject of competition, it is to be expected that Japanese shipyards will make every effort to adapt their advanced produced technology (developed for series production of technically rather simple vessels) to the building of more sophisticated ships.

Countries which have recently developed shipbuilding industries will probably keep the advantage of very low wage rates for a considerable time to come. As a result, they will be able to win orders during the period 1976-1985 at prices unacceptable to Community shipyards, and therefore consolidate their position. Consequently any estimate of the limits to which their shipbuilding industry can expand is uncertain.

Finally, orders for tankers, even after the current surplus has been absorbed, can never be expected to regain the artificially high level, based on a gross overestimate of the expansion of requirements, of the years preceding 1973.

In the light of these comments, the forecasts in Table 4 should be regarded as at the upper limit:

Table 4 — *Production forecasts*

(in million grt/cgrt)

	1975 production		Forecast for production in 1980, based on foreseeable demand		Estimated production in 1985, based on some optimistic assumptions (AWES)		Modified estimate of 1985 production	
	grt	cgrt	grt	cgrt	grt	cgrt	grt	cgrt
EEC	7.8	4.4		2.4		3.9		3.1
Rest of AWES	5.3	3.2		1.5		2.6		2.1
AWES	<u>13.1</u>	<u>7.6</u>		<u>3.9</u>		<u>6.5</u>		<u>5.2</u>
Japan	17.0	7.7		3.9		6.5		5.2
Rest of the world	<u>4.2</u>	<u>4.2</u>		<u>4.0</u>		<u>7.2</u>		<u>5.8</u>
Total, world	<u>34.3</u>	<u>19.5</u>	<u>10.4</u>	<u>11.8</u>		<u>20.2</u>		<u>16.2</u>

Notes

1. These forecasts are consistent with studies carried out by AWES in mid 1976. They are based on an assumed 4% growth in GDP during 1976-85.
2. The forecast for world production in column IV is modified in line with the assumption that GDP will grow by 3.5% p.a. during 1976-85.
3. The geographical distribution of world production is therefore based on the following assumptions:
 - countries other than AWES and Japan (the rest of the world), will not increase the level of their activities until after 1980, but will do so thereafter both by better use of existing capacities, and by some expansion;
 - AWES yards, and the Japanese, will, as in the recent past, have equal shares, measured in cgrt; it is hoped that international cooperation within OECD will bring this about;
 - shares within AWES between the Community and the rest will, as before, be 60/40.

Inventory of finance requirements for reorganizing the shipbuilding industry

Financial instruments available to the Community should make a real contribution towards providing the financial stimulus needed to adapt or convert production facilities.

In view of the present surplus of production capacity, however, it is out of the question that these financial instruments should be used for production support schemes.

Any restructuring of the shipbuilding industry will mean heavy investment for rationalizing and the modernizing equipment, production techniques, management and sales and, above all, for the redeployment of the labour made redundant by the crisis either in the same or another industry.

It is therefore necessary to estimate¹—even to a first approximation from the overall data now available—the possible cost of the scheme and then outline how it can be financed.

Cost of reorganization schemes

Given the uncertainty in the sector and the need to check all the factors and data with the Member States, the industry and trade unions, it is particularly difficult to produce an estimate amounting to anything more than a first approximation of the order of magnitude.

The difficulties are all the greater since the estimates cover a large number of people who, it is realized, will be encountering difficulties in their working life without the Commission being able to do much at present beyond displaying its firm intention to seek solutions causing the least possible difficulties.

Intervention will vary in amount according to the type of scheme and the industry attracting it.

— In the shipyards themselves:

- Over five years estimated natural wastage will reduce employment by 15 000, bringing the total labour force down to 150 000. If production levels out at around the expected volume of demand (2.4 million cgrt), a 45% reduction in production capacity would result; this would probably mean an even greater reduction in employment owing to the hoped-for increase in productivity. Consequently, it is hard to see how the (by then) sound companies could employ more than 90 000 persons at the end of the five-year period, which means that about 60 000 jobs for redundant shipyard workers would have to be created; in addition, under regional economic policies, provision should be made for replacing the 30 000 jobs lost since 1975 through natural wastage.

Where employment in the shipyards is concerned, it can be estimated from experience that the average cost of creating a new job outside will be 50 000 u.a. The 60 000 jobs to be

created for redundant shipyard workers, then, would cost 3 000 million u.a.

- On the basis of investment in recent years, both in Member States and Sweden (where it has been particularly heavy) it is possible to estimate the cost of shipyard restructuring and internal conversion at 900 million u.a. (10 000 u.a. × 90 000 jobs).

— In the allied industries, it is difficult to estimate the split between conversion inside and outside an industry, as it will depend partly on the industry to which they are converted. Nevertheless, the cost of converting these industries may well be proportionately lower owing to a greater ease of conversion to other activities. Using a cost of 25 000 u.a. per job created as a basis, the estimated cost of converting approximately 30 000 jobs will be 750 million u.a.

Over a period of five years from 1978, therefore, the cost of conversion and restructuring schemes would be of the order of 4 650 million u.a., i.e. about one thousand million u.a. per year.

Methods of financing

The cost of financing these schemes must be shared between the authorities' budgetary resources and companies' own resources or such funds as the latter can raise on the market.

At present the Member States support the shipbuilding sector to the tune of 600 million u.a. per year. More might be needed over the next few years.

Moreover, the outlook is such that intervention by States should progressively be directed towards attainment of the common objectives of reorganizing the shipyards. Where Member States apply to the Regional Fund for the creation of jobs to employ labour made redundant by the shipyards, Community resources would be added to national aids. Again at the request of the Member States, the Social Fund could help with vocational training.

The estimated contribution from public-authority budgets to the creation of jobs outside shipyards and allied industries will average some 30%, entailing expenditure of 1 150 million u.a. spread over five years. The contribution from public funds to internal schemes would be at a higher rate in view of the financial difficulties of the industry.

The financial contribution for which the shipbuilders are responsible cannot be significant in view of their liquidity position and their considerable burden in maintaining production facilities but it is to be hoped that they can participate in financing a third (300 million u.a.) of the estimated expenditure necessary to bring about over a period of five years their modernization and internal reconversion to other types of

¹ All estimates are based on 1977 values.

production, the balance (900-300) of 600 million u.a. being borne by the States.

Taken as a whole, therefore, the contribution from the public purse to the rationalization of the sector may be estimated at about 1 750 million u.a.

The financial contribution made in the companies may be assessed, by deduction, at 2 900 million u.a. supplied by their funds.

The Community could participate in this category of financing by turning to the financial market, both through the EIB,¹ with its own procedures and methods, and by recourse to Community borrowing.

Proposal for a Council decision setting up a Shipbuilding Committee

The Council of the European Communities,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the proposal from the Commission,

Whereas on 1977,¹ the Council adopted a Resolution concerning the reorganization of the shipbuilding industry,

Whereas it is necessary to ensure the implementation of common objectives by coordinating national and Community action in this field, and to establish a standing concertation procedure on matters affecting shipbuilding,

Whereas a Shipbuilding Committee is required for this purpose,

Has decided as follows:

Article 1

A Shipbuilding Committee, hereinafter referred to as the 'Committee', is hereby established to advise the Council and the Commission and to contribute towards the coordination of national and Community policies.

Article 2

1. Pursuant to the Council Resolution adopted on the Committee shall monitor trends in the level of demand and contribute towards organizing the adjustment of production capacities to that level and improving production structures.

2. At the request of the Council or the Commission, and without prejudice to the authority conferred on other bodies by the Treaty or acts deriving therefrom and particularly the competences of the Commission under the rules on competition, the Committee shall also undertake studies relating to:

(a) trends in the economic, social and financial situation in the Community shipbuilding industry; this study shall be continuous and comprehensive;

(b) any criteria likely to persuade the Member States to practise solidarity in carrying out the requisite reduction of capacities and to ensure that market trends and the relevant guiding principles laid down by the Council are taken into account in the process;

(c) national and Community means and methods of enhancing the competitiveness and resilience of the sector and for

¹ The interventions of the EIB would be made on the basis of projects which are technically and financially viable and in accordance with available guarantees and the way in which exchange risks can be covered if necessary.

¹ See point 31 of the Communication.

promoting the redeployment of personnel having to be directed to activities outside the sector;

(d) developments in other fields that may influence production.

3. The Committee shall report its findings to the Commission and the Council.

Article 3

1. Member States and the Commission shall each nominate one full member and one alternate. Members of the Committee and their alternates shall be chosen from among senior officials responsible for shipbuilding policy; the full member representing the Commission shall be a Member of the Commission nominated by the latter.

2. Unless otherwise decided by the Committee, members may call on the assistance of qualified persons representing the interests concerned. Representatives of the Commission departments may take part in meetings of the Committee or its working groups on subjects within their responsibilities.

3. The European Investment Bank may appoint an observer.

Article 4

1. The Chairman of the Committee shall be the Commission representative.

2. The Committee may remit specific questions to working parties comprising certain of its members assisted by alternates or experts.

3. The Commission shall provide the secretariat of the Committee.

4. The Committee shall lay down its own rules of procedure.

Article 5

On specific questions, and in accordance with its rules of procedure, the Committee may seek the opinion of the interests concerned.

Done at Brussels,

For the Council

European Communities — Commission

Shipbuilding — Reorganization Programme

Supplement 7/77 — Bull. EC

Luxembourg: Office for Official Publications of the European Communities

1977 — 24 p. — 17.6×25.0 cm

DA, DE, EN, FR, IT, NL

Catalogue number: CB-NF-77-007-EN-C

BFR	DKR	DM	FF	LIT	HFL	UKL	USD
25,-	4,-	1,70	3,50	600	1,75	0,40	0,70

The outlook for the Community shipbuilding industry's output is gloomy. Because of the worldwide structural imbalance between production capacity and demand, the Community's shipyards are likely to suffer a drop in production of approximately 46 % between 1975 and 1980.

This trend is bound to affect employment. It entails the redeployment of some 60 000 persons.

The Commission's programme for reorganizing the shipbuilding sector emphasizes the need for all action to be based on the realities of the demand situation and hence on the need to adjust production capacities quantitatively and qualitatively. As this kind of adjustment is bound to have social repercussions, the Commission advocates a concurrent programme for finding new jobs for workers affected by the reorganization. Care must also be taken to ensure that trends in demand are not affected by distortions in world competition and that the Community is ensured of a minimum of independence in shipping so that it can carry out its economic and trading activities.