

COMMISSION OF THE EUROPEAN COMMUNITIES

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Report from the Commission to the Council

State aids to shipbuilding during 1983 and 1984

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FOREWORD

State of the market

1. The Member States' aid to their shipbuilding industries over the report period reflected the extremely depressed state of the world shipbuilding market.

The situation of the Community industry and recent trends are described in the Commission's seventh report to the Council on the state of the shipbuilding industry in the Community¹.

The major indicators of the state of the industry and its market, namely new order intake, production and employment, showed a further overall deterioration in the industry's position, continuing that seen in 1983.

At the end of 1984 the total order books of Community shipyards stood at only 2.9 million cgrt. This continued the sharp decline in order books experienced in 1983 : before that the level had never been less than 4.7 million tonnes cgrt. The further decline in order books occurred despite a slight recovery in the new order intake in some Member States in 1984 compared with the previous year, which was 8% up overall, though still on average about 20% less than during the earlier crisis years prior to 1983.

As a result, in spite of a further reduction in Community capacity in 1984 operating rates averaged only 60% and there was a further 15% drop in the workforce, as in 1983.

Overall, ^{all} the 1983-84 period saw the Community industry losing further ground on a world market dominated by the might of Japan and the rise of South Korea, which dictate price levels.

¹ Report on the state of the shipbuilding industry in the Community (Situation at the beginning of 1985).

2. Aid

In the preamble to the Directive of 21 December 1982 extending the Fifth Directive until 31 December 1984, the Council, noting the deteriorating situation of the shipbuilding industry, stated that the Directive was intended to allow the industry to restructure, adjust and consolidate in order to become more competitive, and that with the current market outlook these efforts to bring about a lasting improvement in competitiveness should be continued. It saw no possibility in the immediate future of withdrawing direct and indirect support for the industry, given the serious implications its decline held for jobs and the economic prosperity of the shipbuilding areas and the further efforts and sacrifices that would be required in those areas by the restructuring programme.

In 1983-84 the intensification of competitive pressures in the industry led some Member States (Federal Republic of Germany, France, Italy, the Netherlands and the United Kingdom) to step up their support beyond the levels they had initially notified to the Commission and to absorb higher than forecast losses from state-owned shipyards. The depressed shipping market and excess capacity in the world shipping fleet also affected ancillary industries such as ship-repairing.

3. The figures the Member States have supplied for investment aid (Article 3) are shown in Table 2 of Annex I. They prompt the same comment as in the Commission's report of 26 April 1984, namely that the level of aided investment was very low over the period. This is probably accounted for by the weak financial position of Community shipbuilding and the need to rationalize existing assets before these can form a sound basis for further investment.

However, this assessment must be qualified insofar as the table only covers specific investment aid and some Member States operate general aid schemes which can also support investment in shipbuilding, especially for high-technology projects.

The low investment may also be partly due to the fact that shipbuilding has a relatively low ratio of immobilisations to labour and that in many cases restructuring programmes have been confined to closures or conversion to repair or offshore work not requiring major investment.

Finally, the low current investment level may also mean that the shipyards have been seeking productivity gains through manpower cuts and reorganization and have managed to reduce production costs mainly by achieving economies of scale.

4. Tables 3 and 4 in Annex I present a picture of the aid paid to shipowners (Article 8) and shipyards (Article 6) in respect of actual vessels. Read together with Table 1 giving the order book position, they show an industry overall with its back to the wall fighting for a share of the reduced world market at severely depressed prices.

The tables also indicate the industrial options and the tactics the Member States have adopted to deal with the crisis.

The conclusion which emerges is that the continuing weakness of the market, which some forecasters claim will last over 1990, and the drain on resources represented by some levels of support for the industry make it questionable whether large sections of current Community shipbuilding capacity have a viable future, even in the long term.

Table No.1

Situation of the order books of the shipyards in the Community in 1983 and 1984

1000 CGRT

	New orders			State of the order book			Ship completed		
	1983	1984	84/83%	1983	1984	84/83%	1983	1984	84/83%
BELGIUM	58,7	80,7	+ 37,4	143,7	138,1	- 3,9	173,2	102,2	- 41
DENMARK	428,9	433,1	+ 0,9	707,7	747,2	+ 5,6	338,5	389,1	+ 14,9
F.R. OF GERMANY	550,4	716,7	+ 30,2	649,5	680,9	+ 4,8	811,3	673,8	- 17,0
FRANCE	136,4	95,6	- 29,9	598,6	331,9	- 46,6	356,8	363,1	+ 1,7
GREECE	4,6	7,7	+ 67,4	146,1	121,7	- 16,3	35,7	32,8	- 8,1
IRELAND	-	-	-	2,1	-	-	19,2	-	-
ITALY	57,1	70	+ 22,6	356,3	230,4	- 35	217,0	181,1	- 15,6
NETHERLANDS	237,3	303,6	+ 27,9	358,8	379	+ 5,6	415,8	248,8	- 40,2
UNITED KINGDOM	150,4	108,3	- 28	506,1	302,7	- 40,2	319,3	295,9	- 7,3
TOTAL EEC	1.623,8	1.815,7	+ 12	3.418,9	2.391,9	- 14,25	2.686,8	2.288,9	- 14,2

Source : Lloyd's III.A.5

Table No.2

Aid to investment : Article 3 of the 5th Directive

MEMBER STATE	Amount of investment	Nature of aid	Investment aided	Effect on production capacity
BELGIUM	-	-	-	-
DENMARK	-	-	-	-
F.R. of Germany (1)	28,020 mio DM	10% of investment	Replacement of an old floating dock. No effect on production capacity of shipbuilding	-
FRANCE	-	-	-	-
GREECE	-	-	-	-
IRELAND	-	-	-	-
ITALY (2)	1) 8 bill. LIT	12% of investment	Building of a dock for shiprepair	Reduction of shipbuilding capacity and increase of productivity for shiprepair
	2) 95,3 bill.LIT	13% of investment	Building of a berth for shipbuilding	Increase of productivity with maintain of capacity
NETHERLANDS	-	-	-	-
UNITED KINGDOM	-	-	-	-

1) Aid granted in 1983

2) Aid granted in 1984

Table No.3

Aid to shipowners (Article 8 of the 5th Directive)

	1983			1984		
	Total volume		Average effect of aid per contract	Total volume		Average effect of aid per contract
	G R T	Total value (mio) (nat.currency)	Gross percentage	G R T	Total value (mio) (nat.currency)	Gross percentage
BELGIUM	106.506	6.729 BFR	17%	27.893	2.168,6 BFR	17%
DANMARK	285.500	2.124 DKR		412.355	5.699 DKR	OECD terms plus 3,56%
R.F. OF GERMANY	369.670	1.881,1 DM	12,22%	574.092	1.996 DM	12,45%
FRANCE	266.368	1.972,8 FF	11,25 to 12,5%	n.c.	n.c.	
GREECE				38.000	46 mio \$	OECD terms
IRELAND	39.000	491,477 IR£	1,75%	-	-	
ITALY	538.489	16.947 LIT		237.494	12.812 LIT	
NETHERLANDS	104.599	979,4 HFL		323.959	1.335,30 HFL	10,5% (5 x 2,1%)
UNITED KINGDOM	64.900	112,01 UK£	8 to 11%	47.988	171,81 UK£	4 to 8%

Table No.4

Production aids (Article 6 of the 5th Directive)

	1983				1984			
	Number of aided cases	G R T	Proportion of contract price	Estimated average weighted by tonne	Number of aided cases	G R T	Proportion of contract price	Estimated average weighted by tonne
BELGIUM	-	-	-	-	-	-	-	-
DANMARK	-	-	-	-	-	-	-	-
R.F. OF GERMANY	-	-	-	-	11	38.691	between 4 and 6%	5,6%
FRANCE	13	132.245(1)	5 to 20%	17,6%	10	89.920 (1)	5 to 30%	21,9%
GREECE	-	-	-	-	-	-	-	-
IRELAND	1		11%	11%	-	-	-	-
ITALY	59	292.892	11,2 to 25,5% (2)	24,1%	34	54.094	7,3 to	18,73%
NETHERLANDS	32	81.385	2,2 to 17,5%	8,6%	48	158.286	1,1 to 15%	9,65%
UNITED KINGDOM	15	135.331	7,2 to 15,3% (2)	14,3%	9	75.760	8,77 to 15%	13,05%

(1) CGRT.

(2) In so far as the losses of some yards have been compensated the Commission has noted that the rate really applied represented the equivalent of an increase of 5 points for Italie (1983) and 7 points for United Kingdom (1983/84).

LIST OF SPECIFIC AIDS AND INTERVENTIONS FOR SHIPBUILDING DURING 1983-1984

a) Investment aids (article 3), release aid (article 4), aid to deal with the social consequences of restructuring (article 5) and production aids (article 6)

	Description	Level of intervention	Remarks
FR Germany	1) Hamburg - allocation of DM 35 m for investment in the port of Hamburg and conversion of the shipbuilding sector to shiprepair and other sectors (1978 - 1983)		DM 31 m for investment on publicly-owned land. DM 4 m for investments on private land.
	2) Lower-Saxony - subsidies up to DM 3 m		For diversification measures (out of shipbuilding)
	3) Production aids given by the Länder Budget : DM 69 bn (coastal Länder) DM 3 bn (Bavaria)	6% of the contract price for the period from 1.10.1983 to 31.12.1984	The aids are granted for the building of sophisticated vessels and may be reimbursed following the financial results of the shipyards.
France	1) direct aid for construction	20% of the contract price for large and medium-sized yards 10% of the contract price for the small yards. Cost escalation cover over and above.	The maximum tonnage to be built with production aids is limited at 250,000 cgrt.
	2) Aid to rescue an undertaking (article 4)	Exceptional measures of 2250 MFF	
	3) Aid to deal with the social consequences of restructuration	Exceptional measures of 300 MFF	

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a) Investment aids (article 3), release aid (article 4), aid to deal with the social consequences of restructuring (article 5) and production aids (article 6)

	Description	Level of intervention	Remarks
Ireland	- direct aid for construction	30% of the contract price from 1.7.1983 to 30.6.1984. 25% from 1.7.1984.	
Italy	- direct aid for construction (budget allocation : LIT 560 bn 1981-1983)	25% of contract price (30% for the Mezzogiorno region)	The Commission has authorized this scheme in 1983 under restrictive conditions.
Netherlands	- direct aid for construction	4.5% to 8% of the contract price according to the price of the ships, up to 15% for the two great shipyards.	Estimated budgetary allocation : 1983 HFL 69 m and 1984 HFL 46 m In 1984 the budget increased from HFL 32 bn and the rates stand between 3% and 10.5%
United Kingdom	- single refund of certain taxes (shipbuilders' relief)	2% of the construction cost	
	- direct aid for construction 6th tranche of Intervention Fund of UK£ 705 m (July 1982 June 1984)	Max. 17% of contract price (incl. shipbuilders' relief) Northern Ireland : 18% of contract price (excl. shipbuilders' relief)	July 1982 - July 1983

b) Credit facilities for sales or transformation of ships

	Description of aid	Qualifying transactions	Level of intervention	Remarks
Germany	- interest rebate	All sales	- maximum interest rebate 2% (limit OECD conditions) (1)	special scheme for ships
Belgium	- interest rebate	Sales to other Member States and third countries	- OECD conditions	special scheme
Denmark	- preferential credit	All sales	- OECD conditions	special scheme for ships
France	- preferential credit	Sales to other Member States and third countries	- OECD conditions	general scheme
Ireland	- preferential credit	All sales	- OECD conditions	special scheme for ships
Italy	- preferential credit	All sales	- OECD conditions	special scheme for ships
Netherlands	- interest rebate	All sales	- maximum interest rebate 2%	special scheme for ships
United Kingdom	- preferential credit	Export sales	- OECD conditions	general scheme

(1) Repayment period 8 1/2 years, interest rate 8%, down payment 20%.

c) Aids to shipowners (article 8)

	Description	Level of intervention	Remarks
FR Germany	Financing facilities for investments by German owners on purchase of ships in a Community yard or in third countries	Grant of 12.5% of contract price (special grants: max. 5% of contract price)	
Belgium	Credit facilities for Belgian owners on purchase of ships in a Community yard or in third countries	Credit at 4% or 5% for 15 years (with one year moratorium on repayment) on 70% of contract price (Law of 23.4.1948)	
Denmark	Credit facilities for Danish owners on purchase of ships in a Community yard	Credit at 8% for 12 years (with 2 years moratorium on repayment) on 80% of contract price	
France	Financing facilities for investments by French owners on purchase of ships in a Community yard or in third countries	Grant of max. 7.5% of contract price	The total amount of the aid must not exceed FF 30 m
United Kingdom	Credit facilities for the purchase of ships by British owners in British yards (Home Credit Scheme)	- OECD conditions of 18.7.1979 - in addition, a subvention scheme has been introduced under Section 25 of the Industry Act 1975	The application of this scheme must not result in conditions more favourable than those contained in the OECD Understanding
Netherlands	Financing facilities for investments by Dutch owners on purchase of ships in a Community yard or in third countries	- grant of 12% of contract price - investment premium of 2.3% during 5 years	
Italy	Financing facilities for investments by Italian owners on purchase of ships in a Community yard or in third countries	- Half-year grant during 12 years of 2.75% of the contract price (3.20% for tankers under 5000 DWT and for other vessels under 3000 DWT)	

d) Price guarantee mechanism (article 7)

	Description	Level of intervention	Remarks
France	Insurance scheme against overruns of certain costs due to inflation.	Intervention relates to an increase in excess of 6.5%. The prime amounts to 1%.	This scheme is applicable to all goods export contracts.
Italy			The Commission has not authorized the application of the price guarantee foreseen by Law 598 for the period 1981 to 1983