Statement by the Chairman of the Council Working Party on Shipbuilding of the OECD on the 99th Session held on 5-6 July 2001

At its 99th session on 5-6 July 2001 the Council Working Party held in depth discussion on the evolution of the world shipbuilding markets, their underlying policies and how to follow up the instructions given to the OECD by the 2001 meeting of the Council at ministerial level to: i) redouble its efforts to explore solutions to bring about normal competitive conditions in shipbuilding, ii) encourage shipbuilding countries outside the OECD to participate in this work and iii) elaborate and implement a new Understanding on Export Credits for Ships.

At the end of the session Mr. Salvatore Salerno, Chairman of the Council Working Party on Shipbuilding of the Organisation for Economic Co-operation and Development (OECD), made the attached statement which was endorsed by the Council Working Party.

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COUNCIL WORKING PARTY ON SHIPBUILDING
CHAIRMAN’S STATEMENT
Paris, 6 July 2001

1 World shipbuilding completions grew by 52.3% in the space of seven years, and reached an unprecedented high of 20.3 million cgt in 2000, a rise of 10% over 1999. While steadily increasing seaborne trade and ship scrapping due to the application of more effective safety/environmental standards partially explain this growth, the bringing forward of orders to take advantage of the relatively low prices on offer is another important reason for this growth spurt in 2000. The importance of this factor is that if future demand has been brought forward, then when current projects are completed the industry is likely to face a sharp fall in new orders.

2. The Working Party noted with concern that although prices increased between early-1999 and late-2000, they are still lower than those in the mid-1990s. Based upon the latest indications the Working Party believes that even this modest trend may not be sustainable, and noted that price changes for various ship types have occurred at different rates. Therefore, while prices for some vessel types have shown a significant recovery, prices for other types have remained stagnant.

3. Furthermore, based on the OECD Secretariat’s demand analyses, the Working Party expects that in the short-term the world shipbuilding industry will not continue to receive neworders at a similar rate with those for 2000.

4. Significantly, this trend is expected to continue in the longer term, as it is likely that newbuilding demand will further decline after the middle of this decade, especially as orders to replace the ageing tanker fleet have largely already been placed with shipyards. This means that capacity utilisation will decline further, and accordingly prices may be expected to follow, unless there is a substantial, and at present unforeseen, change in the supply/demand structure.

5. As a consequence, the Working Party concluded that shipbuilders world-wide are likely to face tougher market conditions in the foreseeable future, unless the fundamental problem of an increasing supply/demand imbalance is addressed immediately.

6. In view of this market situation there was consensus among Delegations that there was an urgent need to explore all possible solutions to bring about normal competitive conditions in the shipbuilding market. Delegates recognised that the shipbuilding industry had not yet received any attention from the new US Administration, and that early US ratification was now probably unlikely. At the same time Delegations noted that the United States has encouraged members of the Working Party to explore all solutions to bring about normal competitive conditions in shipbuilding.

7. Consequently, Delegations to the Working Party invited the Secretariat to prepare a series of options in order to allow Delegations to be in a position to decide at the next session which policy alternative would be pursued if the OECD Shipbuilding Agreement remains unratified at that time. Importantly, the Working Party also concluded to seek the involvement in this process of OECD countries not members of the Agreement, as well non-OECD countries with significant shipbuilding industries, in order to widen the coverage of any proposal which will eventually be put into place.

8. As part of this process, and as an important step to broaden the OECD’s coverage of the world shipbuilding market, the Working Party decided to arrange a major Workshop with non-OECD countries with substantial shipbuilding industries, to be held back to back with the 100th Session of the Working Party in December 2001.

9. The Workshop’s principal objectives will be to increase the transparency of the market structure and to establish common views on its future development. The Workshop would also explore the role of governments to facilitate the sound development of the industry, and to identify possible areas for closer co-operation in the future between OECD and non-OECD governments.

10. Also in response to the request made by OECD Ministers, the Working Party on Shipbuilding noted that intensified efforts to update by the end of 2001 the 1981 Understanding on Export Credits for Ships are already under way in an expert group. The Working Party asked the Chairman of the Ad Hoc Expert Group on Export Credits for Ships to resolve all outstanding technical issues so that the Working Party can approve the updated Understanding at its next session in December 2001.