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Statement by the Chairman of the Council Working Party on Shipbuilding of the OECD

The OECD Council Working Party on Shipbuilding met on 18-19 December 2000 to discuss ways to bring about normal competitive conditions in the shipbuilding industry. As a first step, the Working Party agreed to update the 1981 Understanding on Export Credits for Ships. The Working Party recognised that the OECD Shipbuilding Agreement remains the best solution, but decided to delay further consideration of ways of promoting normal competitive conditions until the new US Administration is in place and can clarify its position with respect to the Agreement. The Chairman of the OECD Council Working Party on Shipbuilding Salvatore Salerno made the following statement which was endorsed by the Council Working Party.

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**Council Working Party on Shipbuilding
Chairman's Statement, Paris, 19 December 2000**

1. The OECD Council Working Party on Shipbuilding discussed how to bring about normal competitive conditions in the shipbuilding industry and reached agreement to update the 1981 Understanding on Export Credits for Ships.
2. With respect to competitive conditions, the Working Party restated that any solutions to bring about such conditions must be binding and multilateral in character.
3. While the immediate implementation of the OECD Shipbuilding Agreement remains the preferred solution, the Working Party, recognising that the new US Administration is not yet in place, will wait until the US is in a position to provide definitive advice on its position with respect to the Agreement before considering further action. However, bearing in mind that it is essential for the world shipbuilding industry to establish a level playing field as soon as possible, the Working Party encouraged the US to clarify its position at the earliest opportunity, and well in advance of the July meeting of the Working Group.
4. Once the US views are known the Working Party will be in a position to decide on how to best to achieve normal and binding competitive conditions.
5. As a positive step towards more competitive conditions, the Working Party agreed as a matter of urgency to update the increasingly outdated 1981 Understanding on Export Credit for Ships to reflect present day market conditions. These updates would focus, *inter alia*, on replacing the fixed interest rate of 8 per cent by commercial interest reference rates, extending the repayment period from 8.5 to 12 years and tightening development aid credits rules. The Working Party expects to consider specific text for final approval at its next meeting in July 2001, if possible.
6. The Working Party also discussed present and future shipbuilding market developments, and the broad consensus was that the world shipbuilding markets continue to operate in extremely difficult conditions. While orders have been relatively strong in 2000, and prices have increased, this has not yet brought most shipbuilders into profitability, and demand forecasts are not very encouraging.
7. Demand for 2000 is expected to be around 18.4 million compensated gross tonnes (cgt), which is slightly higher than completions over the past few years. Under normal circumstances demand in the next five years could be expected to initially fall slightly, before peaking in 2004, when it is estimated that almost 20 million cgt of newbuilding will be required to meet shipping industry needs. This peak may reach 21.7 million cgt if proposals by the International Maritime Organisation to accelerate the phasing out of certain single hull oil tankers are adopted. These proposals were made in the wake of recent tanker accidents that led to severe maritime pollution.
8. Importantly, this expected peak in demand can be easily met by existing shipbuilding capacity. However, shipbuilding capacity is expected to increase at a faster rate than demand, so that the forecast demand in 2005 of 19.4 million cgt will be handled by a shipbuilding industry with an expected capacity of 26.5 million cgt. This severe demand/supply imbalance could easily exacerbate problems already evident in the shipbuilding industry.
9. The Working Party expressed concern that the comparatively low prices, offered by shipyards trying to fully utilise their capacities, are expected to bring forward shipbuilding orders, thus creating an even more serious demand/supply imbalance in future years. This effect may already be in evidence by the strong ordering trends evident in the first nine months of 2000.

10. With respect to prices, the Working Party noted that these have slightly increased, depending on ships types, since the beginning of 1999. Views were expressed that this trend is, among others, closely related to the recent tightening of capacity in some shipyards which have a full orderbook, as well as the fact that over recent months there has been a strong recovery in shipping, with carriers reporting their highest earnings for thirty years. This has encouraged leading shipbuilders to seek higher prices. However, price levels are still far lower than those in 1997 (by more than 20 percentage points) and on the whole have not allowed shipbuilders to restore profitability.

11. Delegations also expressed concern on the long-term price outlook, where prevailing and future market conditions are expected to depress prices in response to the continuing availability of excess capacity.

12. The Working Party instructed the Secretariat to continue its work on demand and supply as this will provide a useful common base to examine market conditions and develop future shipbuilding policies.

13. Finally, Delegates expressed their concern over the recent trade conflict within the shipbuilding sector. They appealed to the respective parties to urgently find an amicable solution, in order to prevent an escalation of the conflict that could be detrimental to all players in the market place.

Note to Editors

The OECD Shipbuilding Agreement

The "Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry" was concluded by the Council Working Party on Shipbuilding in 1994. This was intended to be a binding agreement that provided for:

1. A subsidies discipline, barring direct and indirect subsidies as well as official regulations and practices in favour of the shipbuilding industry; specific provisions exist for research and development assistance, assistance to workers who lose their employment, and for on-concessional publicly supported credits to foreign and domestic buyers of ships (ie export credits and home credits).
2. An injurious pricing instrument making anti-dumping applicable to shipbuilding for the first time; since ships are not imported for sale, the GATT/WTO Anti-Dumping Code, which relies on anti-dumping duties at the border, has not been applicable to trade in ships.
3. A binding dispute settlement before an international Panel (except for export credits), in case of violation of the subsidy discipline and/or the injurious pricing instrument, backed up by remedies and sanctions.

However, while the European Community, Japan, Korea and Norway have ratified the Agreement, the USA has not, and therefore the Agreement is yet to come into force.

The 1981 Understanding on Export Credit for Ships

The Understanding, which as a Resolution of the OECD Council is binding on those countries that participate in it, provides disciplines covering the provision of export credits for the production of ships. The main provisions of the Understanding cover maximum repayment periods, minimum payments on delivery of the ships, and the maximum interest rates to apply to the credits.

The 1981 Understanding is becoming increasingly outdated, and is now seriously out of step with market conditions. An update of the Understanding in 1994, intended to come into force at the same time as the OECD Shipbuilding Agreement, is not yet in force as it is linked to that Agreement. In any case, by now this update would itself be dated by the passage of time.

The Working Party is examining alternative ways of bringing ways of updating the Understanding to reflect all developments since 1981 so that it is more appropriate for current market conditions.