PART B: Do government support measures distort the shipbuilding industry?

Presented by: Oral Erdoğan, Advisor to the Minister of Transport, Maritime Affairs and Communication, Turkey; Advisor to the Turkish Chamber of Shipping.

Thank you Mr. Chairman,

I would like to start my presentation with a note on the market distortion survey results. According to the results of the survey, almost every country in the WP6 still wants to understand the market distorting factors. So our job now to reduce the harmful effects of those factors would be highly difficult. I think a further survey should also be necessary to distinguish the theoretical, practical and legal bases of the market distortion in the industry.

Related with the measurement of market distortion, we would like to add a short comment. While cost items for shipbuilding are certain; raw and intermediary input prices are also certain for almost all shipyards; the most important remaining cost item is then labor cost. So, it is not difficult to measure unfair pricing in the world. We just need to obtain the each cost item for the production of a ship for different countries and maybe for shipyards.

To understand whether the government support measures distort the industry, we really need to raise the issue to determine the fine border between the economic and social value added of an industry and its distortive effects in the world shipbuilding industry. Especially during and after the recent crisis period most countries have been implementing strong stimulus programs, while probably preventing other players from fair competition in certain industries. Shall we talk about market distortion here or a stimulus program? Furthermore, overcapacity is also as a result from wrong investment decisions. For a better market with fair pricing in the shipbuilding, we should also focus on the corporate governance principles, integrity, and transparency in the organization of industry.

In short, market structure and economic value concepts are very dynamic issues. Any support measures even by one country could be distortive for other countries’ industries naturally.

Furthermore, the stimulus program for the finance industry during the turmoil can also be harmful for the fair competition in the global shipbuilding industry.
For instance, while a country tries to save their banks with bad loans, it can indirectly distort the efficiency of others in the system.

Another issue is related with mergers, acquisitions, and take-overs, somewhat consolidation, issues. There is a general paradox about the economics of scale preference and unfair competition. On the one hand, countries want to increase their productive power in real industries by decreasing the production cost. Thus, they permit larger size firms in the system. However, big firms dominate the market.

Dear participants, exit from the financial crisis seems to last for years for some countries especially in Europe. Despite the increased liquidity possibilities, the asset values and indemnities are lacking dramatically.

In this kind of scenario, many small and medium size firms of the industry would loose against to certain bigger firms of certain economies with powerful and supportive governments.

With respect to the case in Turkey; Turkey believes that there must be an optimal solution between the individual wealth level maximization and fair competition overall in the market. As a good example turkey experienced a temporary credit guarantee fund mechanism just for the uncompleted ships due to the financial shock of 2008. Turkish Government supported about 14 ships for the completion and did not even spend any money, even made extra commission.

In the newest general economic stimulus program announced recently in Turkey, there is only one support measure related with the shipyards. The reason is not to support directly the shipyards actually. Indeed, the way of the support is to decrease the insurance payment of the workers paid by the employers. Considering that the number of workers in Turkish shipyards has decreased to 12000 from about 40000, from the year 2009 to 2012, we can understand the reason behind this support.