Rationale for a Comprehensive Discipline
In an Ideal World…

• Like products
• Full market transparency
• Profit orientation

=> Perfect resource allocation
Perfect Imperfection

- Strategic industry!
- Unlike products
- Non-transparent decision factors

- Chronic overcapacity
- Lack of profitability
- Instability
Individual vs Collective Rationale

- Low price order by Owner is rational
  - Lower capital cost = higher competitiveness
- Low price offer by yards are rational
  - Hoping for better times (contribution margin)
  - Betting on bail-out if necessary
- Reasons for subsidisation by Governments
  - Investment in future (strategic industry)
  - Politically opportune
Collective Disaster

- Depressed markets (owners, yards, value chain)
- Corporate losses, job losses, state budget burden
- Insufficient resources to invest in technology development
- Insufficient resources for addressing safety and environment footprint
The Vicious Cycle: The Disease in Shipbuilding infects Shipping

Imbalance of supply and demand
Low newbuilding price levels
Unsustainable business
Government intervention Bail-out of shipyards
Additional, unsustainable Capacity
Distortion of market incentives

Incentive to buy newbuilding
Increase speculation & volatility
Book value of existing fleets decreases
Low price levels
Unsustainable business

AWES, Brussels March 2002
...and even affects Safety

Shipbuilding
- Imbalance of Supply and demand
- Low newbuilding price levels
- Additional, unsustainable Capacity
- Distortion of market incentives
- Government intervention Bail-out of shipyards
- Unsustainable business

Shipping
- Incentive to buy newbuilding
- Increase speculation & volatility
- Imbalance of Supply and demand
- Low price levels
- Unsustainable business

Strong cost pressure
- Affects newbuilding standards
- Affects capabilities of technical departments
- Affects Safety
Policy Discipline

• Market interventions related to the actual transaction
  – Direct ordering, reserved cargo, subsidies to buyers
  – Financing conditions
  – Direct production subsidy, any form of state aid to the builder

• Market intervention related to the enterprise
  – Bail-outs of any kind
  – Tax schemes etc.

• Market intervention in favour of industry sector
  – Rules and regulations impacting factor costs e.g. labour, energy, exchange rate, land etc.
Corporate Discipline

- Legal compliance
- Normal value prices
Market Injury

• Timing is essential!

• Competitors suffer injury by
  – Loss of contract/business
  – Lower market price level

• Government Intervention only cause injury indirectly
  – Enabling competitor‘s behaviour
  – Compensating competitor‘s behaviour

• Long business cycle allow a long period of unsustainable pricing => Injury cannot be compensated
Subsidy discipline

No gaps please!
How?

- Complete definition of subsidies
- Notification obligation
- Enforcement of rules
Pricing Discipline

Ex-post is too late!
How?

• Obligations linked to use of public instruments such as finance
• Price plausibility (e.g. cost factor developments, past performance etc.)
• Prima facie evidence = open book obligation
• Violation to be determined based on concrete results and sanctioned by lasting exclusion from any use of public instruments
• Failure to execute sanctions leads to loss of on/offloading rights
Finally

An international, effective International Shipbuilding Agreement can work!

…provided all parties WANT to make it work.
Thank You!

More info: www.seaurope.eu