IDENTIFICATION OF INJURIOUS PRICING AND SOME POSSIBLE INFORMATION SHARING MECHANISMS

Workshop on Factors Which Are Impacting Costs and Distorting the Shipbuilding Market
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• The exploration of the Shipbuilding Instrument includes possible rules on:
  – subsidy and other support measures; and
  – injurious pricing.
• This presentation provides some possible mechanisms for discussion on injurious pricing.
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1) PURPOSE OF REGULATING INJURIOUS PRICING
Purpose of regulating injurious pricing

• Sales of ships at much lower price than “normal” prices would have a negative impact on competitive shipbuilders.

• Basically, purpose of regulating injurious pricing is to regulate such sales of ships.

• But, this can have two aspects
  – regulating “sales at low prices itself” or
  – regulating “support measures causing low prices”.
In case of low prices due to government support, to detect injurious pricing will help to detect market distorting support measures by governments.
2) CHARACTERISTICS OF THE SHIPBUILDING SECTOR
Selected characteristics of the shipbuilding sector

• Each ship has an unique size, performance and price.

Difficult to define normal prices
Characteristics of the shipbuilding sector

- Importing country and location of the operator are not necessary the same.

Difficult to impose import tax as sanction
Characteristics of the shipbuilding sector

- Characteristics of the shipbuilding sector should be taken into account to explore possible mechanisms on injurious pricing.

- Notably the following elements should be considered:
  - Effectiveness
  - Minimizing burden (notably in terms of reporting)
  - Transparency
  - Handling of confidential information
3) DEFINITION OF INJURIOUS PRICING
Definition of injurious pricing

• Possible core concept of injurious pricing:
  – Contract price is significantly lower than the **average contract price of like vessels**; or
  – Contract price is significantly lower than the **marginal production cost**.

• In any case, **some kinds of references prices** would be necessary to identify injurious pricing.

• But, how can we know average contract price or marginal production cost?
Average contract price for like vessels

- In some cases, contract prices are published (e.g. Clarkson statistics)
- But, in most cases, contract prices are not published.

**Issues**

- How can we know average contract prices for like vessels without biased sample?
Marginal production cost

• Marginal production cost is a confidential information that only each shipyard owns.
• It is highly confidential in a competitive market such as shipbuilding.

Issues

• Marginal production costs of shipyards cannot be found in the public domain
• Elements impacting marginal production costs (e.g. Steel price, exchange rate) evolve over time.
Ideally, reference price should be clear, transparent and easy to get by everyone.

However, it appears difficult to know average contract price of like vessel or marginal production cost without a new mechanism specific of information collection/sharing in the shipbuilding sector.
4) POSSIBLE MECHANISMS
Possible reference price to identify injurious pricing

• It is not efficient that each authority who wants to appeal against injurious pricing investigates and proofs what was the average contract price or the marginal production cost.

Possible mechanisms
• Clear reference price that is always available for everyone
• Mechanisms to collect and share contract prices
• By companies of shipbuilding economies
• Taking care of confidentiality of information
• Even if a contract price falls below the reference price, it would be inappropriate to immediately judge that the contract price is injurious.
Which is injurious pricing?

**Shipyard A**

Contract price

One time sale for business reasons

**Shipyard B**

Reference price

Sales at low prices supported by subsidy
Possible judgement of injurious pricing

• It is difficult to automatically judge whether a contract price is injurious or not.
• Frequency, Business conditions of shipyards and existence of government support should be taken into account.

Possible mechanism

• Reference price could be used only for sorting out the sales in question.
• Eventually, injurious pricing could be judged by a Panel on a case by case basis.
Option of possible mechanisms would be:

- To collect and share contract prices from shipbuilding economies in order to decide clear reference price that is always available for everyone.
- This reference price could be used only for sorting out the sales in question.
- Eventually, injurious pricing could be judged by Panel on a case by case basis.
Thank you.