

COUNCIL
WORKING PARTY ON SHIPBUILDING

SHIPBUILDING RESTRUCTURING PROGRAMME: STATE OF PLAY

(Paper by Croatia)

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1. Shipbuilding production in Croatia has been increasing for some time, and as a result its shipyards have also recorded income growth. Based on recent contracts, these trends can be expected to continue for some years, provided that regular financial support of production is ensured.

2. However, due to world market conditions, and some structural weaknesses in Croatia, such as lagging technology, low productivity, the inadequate structure of skilled workers and insufficient security against the negative effects of raw materials price oscillations, the majority of the shipyards still operate at a loss.

3. Although the un-audited results of the shipbuilding industry for the first half of 2006 are positive, the business status of the shipyards has in essence not improved, since such results are mostly the consequence of positive exchange rate differences, and not of business rationalisation.

4. With a view to creating conditions for the revival and the carrying out of operations on market principles in the medium-term, the Government of the Republic of Croatia decided to initiate a series of activities aimed at restructuring and privatising the shipyards which are presently state-owned.

5. At the end of 2005 the Government of the Republic of Croatia established the High Level Group for the Preparation of a Proposal for the National Programme for Restructuring of the Croatian Shipbuilding Industry (hereinafter: the NPR), with the aim, through the restructuring process, of enabling the five largest Croatian state-owned shipyards to operate independently in the global market.

6. It needs to be pointed out that four shipyards are companies in difficulties and need to be restructured (3. Maj Brodogradilište, Brodogradilište Kraljevica, Brodotrogir Brodogradilište and Brodosplit Brodogradilište), whereas the privatisation of the shipyard Uljanik Brodogradilište, which is not in difficulties, will start by the end of 2006, so that the restructuring plan for Uljanik becomes an integral part of the NPR.

7. The High Level Group is in charge of drafting the Strategic Guidelines for the further development of the Croatian shipbuilding industry. On the basis of this document, the task of the Group will then be to draft the NPR, as well as individual restructuring plans for each shipyard. In doing this, the Group will take into account the recommendations contained in the "LeaderSHIP 2015" programme recently issued by CESA, as well as the recommendations of an independent consultant.

8. The High Level Group defined and adopted the Strategic Guidelines for further development of Croatian shipbuilding industry on 24 February 2006 and at the same time, through a competition by invitation, an independent consultancy consortium (HVB – Global Shipping) was selected, which at the end of September 2006 prepared a comprehensive analysis of the situation in the Croatian shipbuilding sector and provided its view on how to resolve the problems in this sector.

9. On the basis of this analysis and other proposals, the Government of the Republic of Croatia will, upon the verification by the European Commission, adopt the NPR and individual restructuring plans for each and every shipyard.

10. The measures and activities of financial, staff and technological restructuring will be defined by the adoption of the NPR, as well as the harmonisation of state aids with EU rules.

11. These measures will be particularly directed at: **increasing competitiveness by rationalisation of business operations and the sustainability of successful activities in the global market for ships under market principles.**

12. In the meantime, until the restructuring programme has been drafted, and with the aim of maintaining current operations, the Croatian Competition Agency has allocated a one-off state aid for recovery to shipyards, in accordance with Article 17 of the *Regulation on state aids* (OG 121/03), in the amount of 4.2 billion HRK.

13. Of this the amount, 1.48 billion HRK was approved for the year 2006, and the balance is planned for the year 2007.

14. The adoption of the NPR by the Government is expected during the first quarter of 2007.