

COUNCIL
WORKING PARTY ON SHIPBUILDING

**THE EU POLICY: STRONG EUROPEAN SHIPYARDS THROUGH COMPETITIVENESS AND
GLOBAL LEVEL PLAYING FIELD**

(Paper by European Commission)

This document by the European Commission will be presented at the first session of the Workshop with non-member economies on shipbuilding policies to be held on 18-19 December 2006.

Contact: Structural Policy Division, Mr. Danny Scorpecci. tel: +33 1 45 24 94 33;
fax: +33 1 44 30 62 57; e- mail: danny.scorpecci@oecd.org

JT03219785

THE EU POLICY: STRONG EUROPEAN SHIPYARDS THROUGH COMPETITIVENESS AND GLOBAL LEVEL PLAYING FIELD

The shipbuilding industry and its competitiveness are of particular importance for the EC:

- Shipbuilding is an important and strategic industry for the EU and for most Member States. Shipyards often play a significant role for the regional industrial structure.
- 1. The European Shipbuilding industry is strong, dynamic and high value oriented and with productivity increasing by more than fourfold in the last two decades, Europe's maritime industries are indeed competitive, flexible, and responsive to market conditions with a working environment that is characterised by professionalism and mutual respect:
- More than 300 Shipyards provide around 140 000 high qualification jobs through direct employment and generate more than 400 000 jobs indirectly.
- The 2005 annual turnover of European shipyards is more than 9 billion € in merchant shipbuilding (Third largest turnover after Japanese and South Korean shipbuilding industries) and 2.1 billion € in ship repairing.
- Exports account for more than 50% of the total turnover.
- The production in the EU concentrates increasingly on high value market segments: cruise ships and other specialized vessels.
- European yards invest on average approx. 10% of their turnover in research, development and innovation (around one billion euros).
- Production output remained fairly stable in Europe over the past decade. 389 vessels were delivered in 2005, representing around 4 millions CGT.
- The European shipbuilding industry is the global leader in the construction of complex vessels such as cruise ships, ferries, mega-yachts and dredgers. Equally, the European marine equipment industry is world leader for a wide range of products, from large diesel engines to electronics.

In a recent address, EU Trade Commissioner **Peter Mandelson** said:

"In the global economy, Europe's trade policy must become an integral part of its wider approach to economic reform and competitiveness. Our trade policies have a vital role in stimulating growth and creating jobs in Europe. To do so, we need to adapt the tools of EU trade policy to new challenges, to ensure Europe remains open to the world and other markets open to our trade. More than ever, Europe needs to import to export; to trade in order to grow. Our supply chains are global. We need to be open so that we can insist on openness from others".

In other words, the EC policy aims to create jobs and growth through competitiveness and openness, to open markets rather than protectionism at home. This is also the case for the shipbuilding sector.

What are the possible different policy instruments by which the EC is to ensure competitiveness in the shipbuilding market?

Firstly the EC is committed to increased transparency in the world shipbuilding industry.

Why is it so important?

Because it is the only way to facilitate the adoption, by governments and industry in both OECD and non-OECD economies with substantial shipbuilding industries, of constructive policies based on market mechanisms. After years of severe market disequilibrium, the world shipbuilding industry is currently experiencing a strong growth market, with full order books and rising prices, but also a rapid increase in production capacity. Considerable uncertainty exists as to demand developments in the mid and longer term. Concerns remain that when demand for new vessels declines the inevitable excess capacity could ultimately lead to a deep fall of market prices and to new distortions of the market mechanism. However, a viable and robust shipbuilding industry cannot be based on protectionism or subsidies.

Without the benefit of a good knowledge and understanding of the market, transparency of government policies and a deep relationship between the major players in the sector, there is no guarantee that normal market conditions and commercially appropriate responses will prevail.

Secondly, the EC wishes to improve the worldwide protection of intellectual property rights in the shipbuilding industry.

The excellence and competitiveness of the Shipbuilding industry can only be maintained and further enhanced through innovative vessel concepts, optimised sub-systems and sophisticated design, production and planning methods. Therefore "intellectual property" is a highly valuable asset. Uncontrolled knowledge drain is a frequently observed process, allowing competitors to benefit from European knowledge assets at a fraction of the initial cost. The EC is consequently working with industry to do better in this respect by raising awareness of the issue, better exploiting existing instruments and endeavouring to ensure that all our trading partners play by the rules.

The European industry is increasingly complaining about the rapid transfer of intellectual property to competitors outside Europe, and the lack of practical and efficient instruments to counter this threat to their competitiveness.

As shipyards have to share their knowledge with many third parties (classification societies, suppliers, ship owners), they are facing a permanent risk of violation of their intellectual property rights.

Today, copyrights, registered designs, trademarks and patents are the main instruments to protect intellectual property rights. Additional measures are non-disclosure and specific collaboration agreements, although the "one-off" features often found in shipbuilding projects can make such agreements costly and appear less rewarding.

EC is convinced that only with a strong commitment from governmental institutions around the world, it will be possible, in the future, to avoid that some illegal copying activities may prevent honest shipyards from well deserved success.

Thirdly, EC is committed to encourage cross-border cooperation between yards and also cross-border investments, joint ventures mergers and takeovers.

International relationship between people and companies are a key factor for prosperity.

This assessment is particularly true in the field of shipbuilding industry as its market is a truly global market.

Thus, the European Commission has set up many programmes to promote international relationship between EU and foreign countries. Some of this programmes aim to promote international investment among business units (i.e. programme Asia Invest for business cooperation) other aim to promote cooperation between education institutions (i.e. Asia Link Programme)

One of the most recent events helped by the EC in the framework of the programme "Asia Invest" is the **ASIA-INVEST FORUM CHINA 2006**, Sunday 5 – Tuesday 7 November 2006.

This Forum contributes to strengthening the Europe-Asia business network as did the initial Asia-Invest Annual Conference held in Beijing in 2002 and the subsequent Forums organised in Vietnam in 2003, Sri Lanka in 2004 and Thailand in 2005; and at addressing issues of common interest related to the enhancing the environment for business co-operation.

The Asia-Link Programme is an initiative by the European Commission to promote regional and multilateral networking between higher education institutions in Europe and developing countries in Asia. The programme aims to promote the creation of new partnerships and new sustainable links between European and Asian higher education institutions, and to reinforce existing partnerships.

Since 2002, the Programme has funded 155 partnerships that together involve over 700 higher education institutions from Asia and Europe.

Finally, EC is committed to help European shipyards to adapt to new technologies.

EU Competition Commissioner Neelie Kroes said: “Encouraging innovation in all sectors of the European economy is vitally important The Commission wants to see a competitive and innovative shipbuilding industry in Europe – but we need more experience in applying the current rules to the sector before we can decide on what’s best for the future.”

Thus, the European Commission has decided to prolong the Framework on state aid rules for shipbuilding by two years, until 31 December 2008. The current Framework, which came into force at the beginning of 2004 will expire on 31 December 2006, took into account the characteristics of the shipbuilding industry, including provisions about the use of aid for innovation which are unique in EU state aid law. Given the limited period of application of these rules, the Commission wants to acquire more experience before deciding on the future of these rules.

Since the current shipbuilding Framework entered into force on 1 January 2004, only a few cases have been assessed under its rules. The Framework’s provision on innovation aid aims at encouraging greater efficiency and competitiveness of European yards. The Commission has so far approved three innovation aid schemes; however these schemes have not yet been implemented. The Commission has therefore come to the conclusion that it needs to acquire more experience with these rules prior to reviewing them, in line with the objectives of the State Aid Action Plan for less and better targeted aid. A decision on whether specific innovation aid rules will be justified in the future will depend on whether and how these rules will be applied, on the basis of notifications that Member States may submit to the Commission.

The Framework contains, in addition to rules on innovation aid, specific provisions on regional aid, closure aid, export credits, development aid and employment aid that reflect the specific characteristics of the shipbuilding industry and market.

Most of these issues are addressed in a comprehensive and coherent manner in the global policy framework for the European shipbuilding industry entitled "**LeaderSHIP 2015**" - Defining the Future of the European Shipbuilding and Shiprepair Industry - Competitiveness Through Excellence".

The "LeaderSHIP 2015" initiative is the EU shipbuilding industry's response to the competitive challenges it is facing. It is perhaps best seen as a vision based on a belief in the capacity and innovative potential of the industry and a determination to fight for its future and is designed to address all issues that are important for the future competitiveness of the sector.

With the initiative "LeaderSHIP 2015" the European shipbuilding industry has started an ambitious programme to ensure its long-term prosperity in a dynamic growth market. In response to challenging market conditions, Europe has crafted a strategy that sets out 30 specific recommendations in 8 key areas, with a view to ensuring the industry's long term survival and prosperity.

One of the biggest themes in LeaderSHIP is innovation and research. Since 2004 shipyards and marine equipment manufacturers can receive the new targeted and limited aid to support genuine innovation referred to earlier are providing a strong incentive to promote further innovation and help Europe to make the most of its competitive advantages. Almost all major maritime innovations from the world's largest cruise liner to the smallest pieces of maritime equipment continue to come from Europe and the sector's dependence on research as a driver for knowledge and better ships is acknowledged by all.

We are also getting close to the launch of EU's 7th R&D framework programme. Against this background a Technology Platform covering all maritime industries is elaborating a real and relevant strategic research agenda. This will hopefully lead to exciting projects that help European yards stay ahead in terms of delivering state of the art vessels and equipment.

LeaderSHIP 2015 is also concerned with improving the already existing technological leadership in selected market segments, strengthening customer focus, improving the industry structure, facilitating greater safety and environmental protection and better professional training and, making EU shipbuilders and marine equipment suppliers world leaders in their field by 2015.

Together with Community institutions and Member States, the European shipbuilding industry should in particular play an important role in the improvement of maritime safety and environmental protection through providing technical expertise to the relevant bodies, the development of high quality products that exceed the current minimum standards and through the establishment of good industry practice, in particular concerning ship repair works. The latter could take the form of a quality assessment scheme for shipyards on a world-wide level.

Meanwhile, any consideration of the future of Europe's shipbuilding industry would be incomplete without a reference to the recently published Green Paper on a new maritime policy for the European Union. This Paper advocates a holistic, joined-up approach that addresses all relevant maritime issues including of course the competitiveness of our industries. It poses questions, invites comments and constitutes a real opportunity for all stakeholders to influence the future direction of maritime policies. It also bears witness to the importance that this Commission attaches to maritime affairs and dovetails with the overall Lisbon strategy to harness our strengths to deliver sustainable growth and jobs in this as in other sectors. The consultation process on this initiative runs until the end of June 2007 after which the EU will decide on appropriate policy responses and initiatives.

Closing/concluding remarks:

- In the present period, we can say that worldwide shipbuilding industry is a healthy industry: the first three quarters of 2006 show a high level new orders reaching 43.9 M CGT, total new orders for 2006 should be higher than in previous record year 2004, as the order book continues to increase reaching 127.4 M CGT at the end of September 2006.
- Thus, we are allowed to considerate that this industry can survive and develop on its own. If some shipyards around the world are still suffering deficits, it is mainly due to vessels contracts signed in the price slump of 2002 and 2003 and to high steel prices, which rose strongly during this year.

This is also the right time to address some of the issues the sector has been bothering over many years: subsidies and dumping. We are in favour to work on international disciplines to address these problems but are aware that globally the conditions for resuming are not met. However, we remain of the view that Governments should not intervene in shipbuilding outside closure aid and R&D support

Thank you for your attention.