



# Consideration of Inventory on Support Measures and Market Distorting Factors

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# 1. Market Distortion

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## A. NO AGREEMENT on the Meaning of Market Distortion

- ▶ Document titled “WORKSHOP ON MARKET DISTORING FACTORS IN THE SHIPBUILDING SECTOR BACKGROUND PAPER” [C/WP6(2009)17, “Background Paper”] correctly summarized that no agreement on the meaning of “market distortion” was made at the time of pause.

# 1. Market Distortion [Cont.]

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## B. AGREEMENT on that It is Impossible to Establish “ex ante” Sanction on Outside Influence

- ▶ SNG Chairman reported that whether an outside influence including a subsidy is market distorting or not, could only be decided “*ex post*” (Background Paper para. 4).
- ▶ Meaning that a subsidy cannot be sanctioned as being inherently market distortive;
- ▶ Meaning that outside influence is to be assessed based on whether there arises “adverse effect” to the normal competitive market and, if so, to what extent;
- ▶ Also meaning that existence and level of effect to the shipbuilding market by an outside influence depend on its type, nature and the magnitude.

# 1. Market Distortion [Cont.]

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## C. Shipbuilding Transaction vis-à-vis Shipbuilding Market

- ▶ Transactions in the shipbuilding market are basically premised on not only supply and demand in the market, but also the competitiveness of shipyards.
- ▶ As a consequence, if a subsidy is a factor that directly affects supply, demand, and competitiveness, and if such subsidy is large enough to cause impacts, one can say that such subsidies distort the normal competitive shipbuilding market.

## 2. Regulating Subsidy

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### A. Hints from Sanction on Subsidy under WTO System

#### ▶ Pre-WTO/GATT 1947

- [Finding] Article XVI: 2
  - *[S]ubsidy on the export of any product subsidy may have harmful effect for other contracting parties, both importing and exporting [...] and may hinder the achievement of the objectives of this Agreement*
- [Resolution] Article XVI: 4
  - Prohibition of the export subsidy since 1 January 1958
  - Political resolution
  - No regulation on subsidies of other nature

## 2. Regulating Subsidy [Cont.]

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- ▶ **WTO Agreement on Subsidies and Countervailing Measures (“ASCM”)**
  - Continuous prohibition of export subsidies (ASCM Article 3)
  - Introduction of “actionable subsidy” (ASCM Article 5)
    - Necessity to sanction certain subsidies given their negative impacts to trade/markets
    - Requiring such subsidies to have “adverse effect”
    - **Political decision by Members**

## 2. Regulating Subsidy [Cont.]

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### B. Necessary to Have Another Rule for Regulating Support Measures for Shipbuilding Market, given the ASCM?

#### ▶ Procedural Commitments

- **ALL COUNTRIES** that have substantial interests in the shipbuilding industry to be given opportunities to actively participate and to fully address issues
- **SECRETARIAT** to diligently provide relevant data/research results on the basis of NO BIAS

#### ▶ Political Commitments

- Commitments to make themselves bound with the results in a fair and responsible way
- Attention on the recent changes of major players in the shipbuilding market; responsibility commensurate to the market share

## 2. Regulating Subsidy [Cont.]

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### C. Korean Shipbuilders

- ▶ Not from the notions that each subsidy has the market distortive effect or that subsidies to the shipbuilders are market distortive *per se*
- ▶ But from the conviction that market distortions in the shipbuilding industry arose from government supports (**artificial advantage**) at that time to the extent undesirable
- ▶ Korean shipbuilders agreed in principle to sanction and prohibit “potentially market distorting” subsidies and non-subsidy support measures (“WTO Plus” approach) through the SNG negotiation.

## 2. Regulating Subsidy [Cont.]

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- ▶ Korean shipbuilders exerted best efforts in order to conclude a new agreement; however, the negotiation failed and was “paused” in 2005.
- ▶ At the time of pause in 2005, Korean shipbuilders took it that the SNG Participants shared a view that no new agreement was compelling.
- ▶ Upon considering all of these, Korean shipbuilders asked the Secretariat to prepare as to whether there have been substantial changes in the market after the pause and as to whether Participants have changed their positions prior to resuming the negotiation; OTHERWISE, ANOTHER PAUSE EXPECTED.

## 3. Status After 2005

### A. Analysis of Support Measures Involving Monetary Outlays

C/WP6(2008)8

**Table 2. Measures involving monetary outlays**

1998-2000 and 2004-2006 (USD million)

Type of measure	1998	1999	2000	Total 98-00	2004	2005	2006	Total 04-06
Direct transfers	677.80	549.70	612.30	<b>1839.80</b>	233.68	196.46	179.52	<b>609.66</b>
Indirect transfers	407.90	194.70	62.30	<b>664.90</b>	7.08	11.03	120.41	<b>138.52</b>
Export subsidies	34.40	22.20	54.00	<b>110.60</b>	n/a	n/a	n/a	<b>0.00</b>
R&D support	44.70	11.80	22.10	<b>78.60</b>	21.73	34.79	51.49	<b>108.01</b>
Govt interest in yards	n/a	n/a	n/a	<b>0.00</b>	37.96	23.25	0.00	<b>61.21</b>
Other measures	0.00	0.00	0.20	<b>0.20</b>	10.15	1.13	0.08	<b>11.36</b>
<b>Total</b>	<b>1164.80</b>	<b>778.40</b>	<b>750.90</b>	<b>2694.10</b>	<b>310.60</b>	<b>266.66</b>	<b>351.50</b>	<b>928.76</b>
n/a = not applicable								

## 3. Status After 2005 [Cont.]

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### B. Implications

- ▶ Significant reduction (of around 65%) of measures involving monetary outlays during the period of 2004 through 2006
- ▶ Notably, the most significant fall in DIRECT TRANSFERS (i.e., subsidies and contract related aid)
- ▶ Substantial fall in INDIRECT TRANSFERS also
- ▶ Only increase in support for R&D with the aim to make the industry more efficient and competitive; GOOD, BAD or Neutral?

## 3. Status After 2005 [Cont.]

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### C. Tasks

- ▶ Need to analyze the Inventory for the period thereafter (2007 & 2008 first, and subsequent periods)
- ▶ Need to assess in terms of nature, type and magnitude
- ▶ Need to seek other support measures potentially not in conformity with international undertakings or distorting normal competitive market
- ▶ Secretariat to have prospective, again non-biased, perspective when analyzing and assessing support measures

## 4. Recession-Stimulus Package

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### A. Recession - Declaration Summit on Financial Markets and the World Economy November 15, 2008

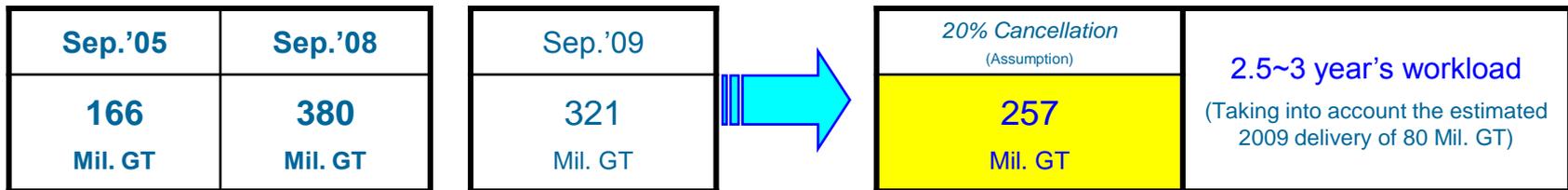
- ▶ Inconsistent and insufficiently coordinated macroeconomic policies and inadequate structural reforms led to unsustainable global macroeconomic outcomes.
- ▶ These contributed to excesses and ultimately resulted in severe market disruption.
- ▶ **States to take stimulate economies, to provide liquidity, to strengthen the capital of financial institutions, to unfreeze credit markets, among others**

# 4. Recession-Stimulus Package [Cont.]

## B. Recession Hit Shipbuilding Industry

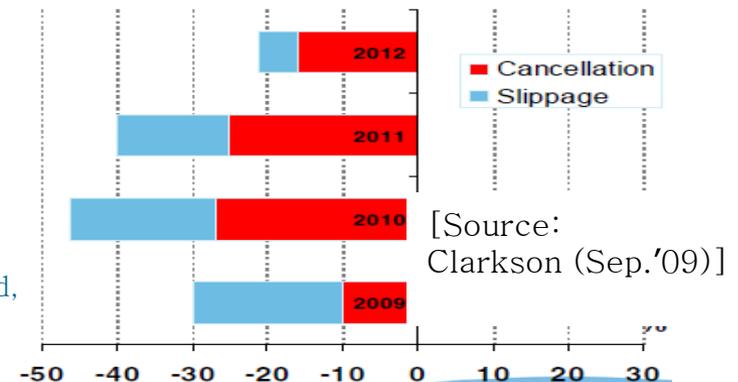
### Order book

- Order book is on the decrease after the Lehman shock. Cancellation & slippage may continue to cause further reduction and flattening.
- The order book accounts for at least 2.5~3 years of shipyards' workload.



### Delivery Slippage & Cancellation

- Difference between estimated / actual delivery during the past 9 months ; 93.6 M.GT (Est.) 62 M. (Act.) [abt. 20% Gap]
- Abt. 40% of the orderbook is assumed to be delayed or cancelled, mainly caused by drastic shortage of liquidity.



## 4. Recession-Stimulus Package [Cont.]

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### C. Government Assistance for Sustainability of Economy

#### ▶ ASCM

- *It is recognized that government assistance for various purposes is widely provided by Members and that the mere fact that such assistance may not qualify for non-actionable treatment under the provisions of this Article [ASCM Article 8] does not in itself restrict the ability of Members to provide such assistance.*

- ▶ Stimulus Package to be evaluated on the basis of such recognition
- ▶ May be too early to analyze/assess

## 4. Recession-Stimulus Package [Cont.]

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### D. Guidance Necessary for Administration of Stimulus Package

- ▶ Learning from Summit Declaration
  - Strengthening transparency and accountability
  - Enhancing sound regulation
  - Reinforcing international cooperation
  
- ▶ Commitment to an Open Global Economy-successful only based on
  - Commitment to free market economy
  - Open trade and investment
  - Competitive markets

**Otherwise, Stimulus Package to Potentially Produce Another Distortion**

## 4. Recession-Stimulus Package [Cont.]

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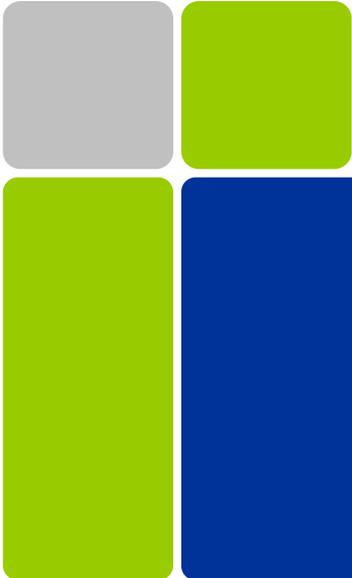
### E. Stimulus Package-Market Principle Still Rule

- ▶ To keep transparency and accountability
- ▶ To not hinder free market economy
- ▶ To not deter competitive market
- ▶ To not delay closure or reduction of uncompetitive shipyards
- ▶ Notably, 7 Korean shipyards placed under insolvency proceeding during the recession

## 5. Conclusion

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- **Korean Shipbuilders Request Secretariat**
  - ▶ To carefully assess the latest inventory of support measures
  - ▶ To periodically and systematically review such support measures
  - ▶ Also to analyze Stimulus Packages and to assess their effects considering the balance of emergency situations and market principles
- **Based on these efforts, Secretariat must establish occurrence of market changes/position changes sufficiently enough to convince ALL Participants that there are compelling reasons to resume the negotiation.**
- **Otherwise, further efforts will be in vein.**



# Thank You



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