

Korea's views on Market Distorting Factors

June 21st 2012

Introduction

Honorable chairman, and distinguished delegates from member countries,

It is my great honor to have this opportunity to take part in this meaningful occasion to present Korea's view on market distorting factors.

The issue of market distortion is critical in working towards the Mandate of the WP6, "To work towards the identification and progressive reduction of the factors that distort normal competitive conditions in the shipbuilding industry"

I hope today's discussion will help us get a clear understanding of the positions of member and non-member countries alike on the issue of market distortion for which the WP6 has had on-going discussions. The insightful views and suggestions to be put forward by the participants will help us decide on how we should deal with the renewal of WP6 mandate at the end of 2013.

Let me begin by sharing Korea's perspective on the current shipbuilding markets. Then I will move on to the issue of market distortion and subsequently to individual points with regard to this issue.

Korea's view on the Current Shipbuilding Market

The current world economy is showing signs of slowdown. Among others, the European financial crisis is adding uncertainties to the prospect of the shipping and shipbuilding market.

Global ship orders have declined since the 2008 economic crisis: in 2012, there have been only a handful of ship orders. The new shipbuilding price has also gone down to 70% of the 2008 peak level in April, this year.

This decline in the market has led to a global restructuring of the shipbuilding industry, which had been showing signs of over-capacity. In Korea alone, 23 out of 24 small and medium-sized Korean shipbuilders are undergoing restructuring led by the private financial sector due to the decline in orders and liquidity shortage.

While I understand the importance of today's special session, considering the current shipbuilding market, I believe it would have been more beneficial if we take this opportunity to discuss how to overcome the current crisis with the leading shipbuilders of the world.

Korea's view on Market Distortion

Now, I would now like to move on to Korea's position on the issue of market distortion.

The market distortion issue has been under discussion for almost 50 years since the establishment of WP6 in 1966. Still, we have yet to arrive on a consensus as to whether there exists a significant distortion in the shipbuilding market, and if so, what the factors behind the distortion are.

This is well described in the background paper of the Secretariat, *Part D: Evolution of the WP6 Treatment of Market Distorting Factors*. WP6 has undergone extensive discussions, but still we have yet to reach an agreed-upon conclusion.

I believe the in-depth discussions to take place today will help us understand the positions of each participating countries. However, I have some reservations as to whether we will be able to ultimately reach a consensus on the market distorting factors at the end of today, or sometime in the near future for that matter.

Korea's view on Individual Issues Regarding Market Distortion

Notwithstanding my reservations, let me move on to Korea's views on the individual issues regarding market distortion.

Government support measures

Opinions are now divided over the question raised in the past discussions: whether *all* forms of government subsidy are distorting.

As specified in WTO's *Agreement on Subsidies and Countervailing Measures*, government support has the potential to distort the market. At the same time, the *Agreement* implies a premise that not all government support distorts the market, a point which Korea shares its view.

As I understand, the purpose of reporting of the Inventory of Government Subsidies other Support Measures under the WP6 is not to condemn *all* these Inventory items as distorting the shipbuilding market, but more to secure transparency among the participants of the items that may have *potential* distorting effects.

Industry practices

As regards to industry practices, Korea views that market distorting practices are unlikely due to the unique characteristic of the shipbuilding market. The most conspicuous characteristic of the world shipbuilding market is that it is a single global market, which intensifies competition among the participants. No one shipbuilder or ship owner has the market power to extend dominant influence over the market.

On this point, it is noteworthy that OECD's two separate reports commissioned to independent consultants also share this view. Korea understands that these reports support the argument that market distorting practices are unlikely in real terms in the shipbuilding market.

Worldyards concluded in Paragraph 58 of C/WP6(2012)15 that "the nature of the shipbuilding market makes it quite difficult to achieve market manipulation by private sector market participants, from either the supply side or the demand side." This was based on the observation that in the shipbuilding market the players lack market dominance. It also came about through objective evidence on shipbuilding margins which suggested a "fiercely competitive industry" (Paragraph 60).

Shipyards Economics, the other independent consultant, also concluded that "a market economy is in operation which is not suffering from distortion through unfair market prices"(Paragraph 65). In particular, it pointed out that "dominance of the market by any individual shipbuilder" was not considered to be a current problem or significant risk, and "the strong level of competition would indicate that there is little likelihood of collusion between the major market players"(Paragraph 66).

Going Forward

As mentioned earlier, although there have been ample discussions on market distortion, we have yet to reach a consensus. I do not expect that we will be able to do so today or any time soon even after several more discussions.

I hope today's session will be an opportunity for all member countries to consider how WP6 should proceed in the future. Following the outcomes of the WP6 meetings today through next year, I hope in the next phase of the WP6, we will be able to focus more on the issues that are more relevant to future prosperity of the shipbuilding nations.

Additionally, one of WP6's goals is to expand participation of non-member countries. In this sense, I would like to suggest that we endeavor to identify agenda items that are of interest to non-member countries. I would also like to request the Secretariat's continued endeavors towards fact finding and diplomatic approaches in order to persuade China and other non-members to participate in the WP6 activities.

Thank you.