
OECD Market Distortions Report

WP6 Special Special Session
21 June 2012, Paris

Objectives of Study

- Assess and identify the existence of market distorting practices

OR

- Identify characteristics of global shipbuilding which would prevent such distortion

Key Issues

- What is the yardstick against which fair practice is determined?
- What are the characteristics of shipbuilding that market regulation has to address?
- What is workable?
- How does the process of addressing this affect or influence matters

Trade Regulation

- Two main categories of categories
 - International trade (through WTO) driven by anti-dumping (AD) treatments
 - National anti-trust (AT) policies
- International dispute process is very lengthy & cumbersome based on the subsidy examples in shipbuilding & aerospace
- National AT policies vary considerably
- 1994 Agreement was a ‘special’ agreement based on AD which recognised certain practical issues
 - Customs status & remedy practicalities
 - Comparative transaction concept

1994 Agreement

- Revolved around Injurious Pricing and WTO Anti-dumping approach
- Was never brought in to force & would not be workable
- Geographic distribution of shipbuilding changes & any new agreement would need 'future proofing'
- Current leading shipbuilding nation, China, and other emerging shipbuilding countries are not OECD members
- Little or no prospect of gaining consensus to any new agreement that was based on previous agreement

Shipbuilding Market

- Geographical Segmentation X
- Product Type Segmentation X
- Integrated Global Market ✓

In a global market arguably export and domestic markets are one and the same

Shipbuilding Characteristics

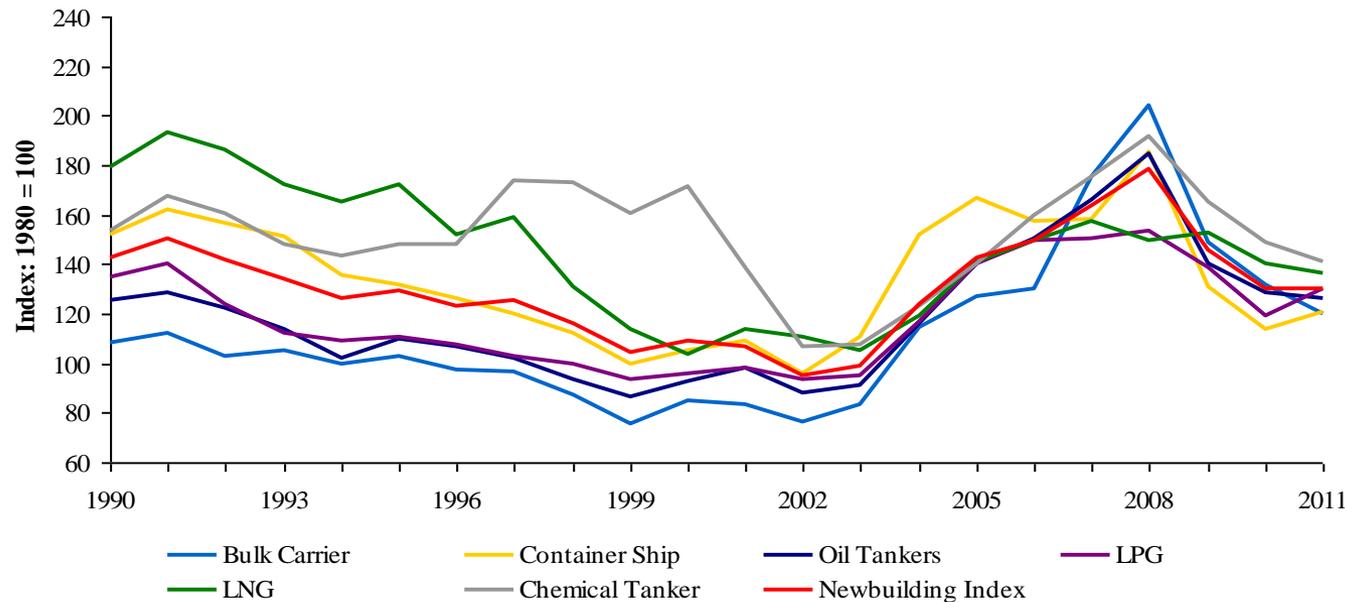
- Do not support a 'like product' approach
- Substantially involve estimated costs and risk pricing
- Complaints or investigations cannot take place at the point of contracting, and hence not processed in a timely manner
- There is a substantial delay between contracting and realisation of actual costs that would be problematic in market regulation
- Raise queries over an agreed and realistic basis of product / project costing

Product / Project Costing

- There is no consensus amongst the main shipbuilding countries over what is a fair pricing basis.
- Views indicate it lies somewhere between:
 - Variable costs
 - Full recovery (or full absorption) costing
- In value terms these two extremes represent wildly different values for vessel costs
- Injurious pricing & 1994 Agreement presumed full recovery costing PLUS profit margin

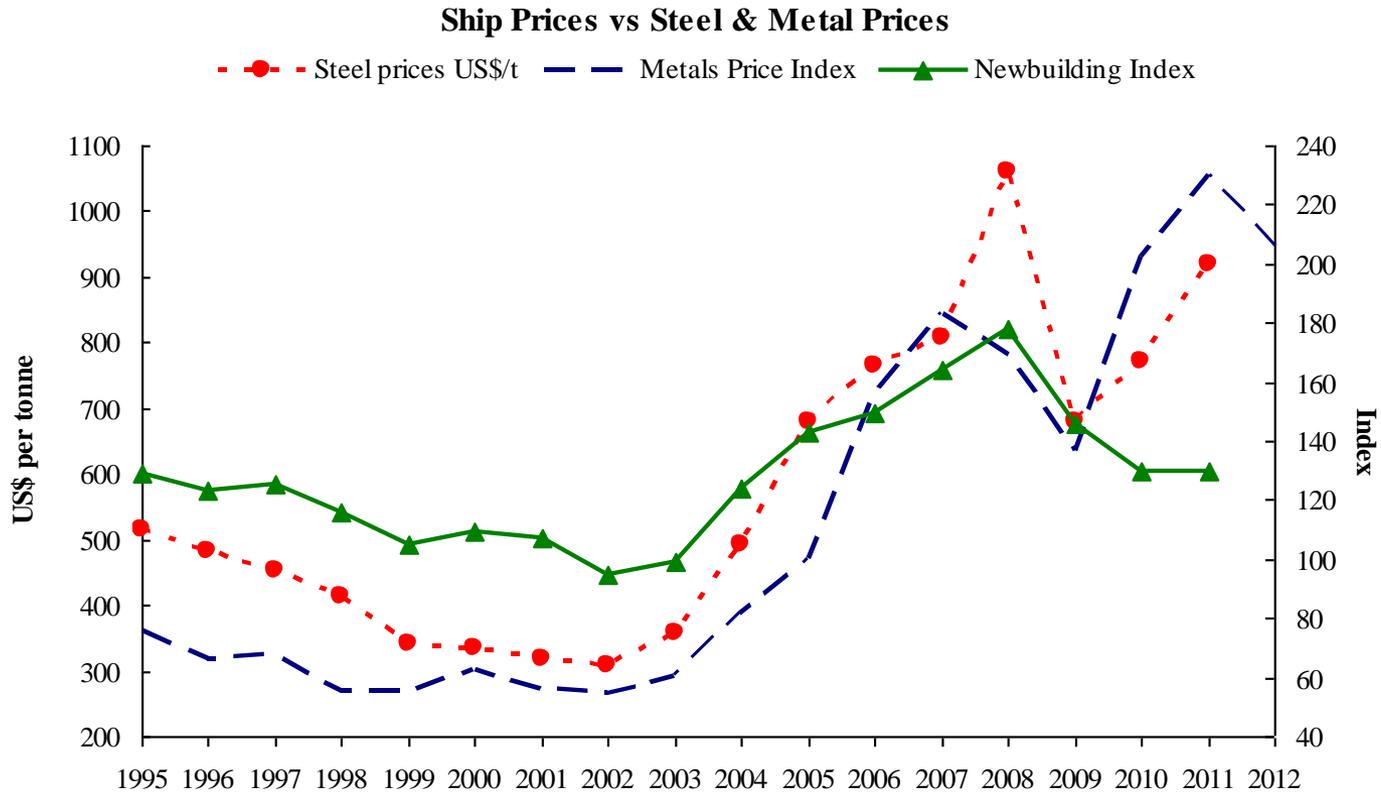
Market Pricing

Shipbuilding Prices Index - Long Term Trends - End Period



- 1990s – output growing prices declining
- 2002 – 2008 output growing prices rising
- 2009 – 11 output growing prices declining
- Differing trends between ship types

Price vs Cost Trends



Full-Recovery Costing

- Inconsistent with market pricing driven by the customer market
- Would result in ship prices rising at periods of low demand which is counter-intuitive
- Shipbuilding prices are based on estimates & risk pricing
- Time delay between contracting and production means that production volumes (as well as production costs) are unknown at contracting

Variable Contribution Pricing

- Market pricing means that contribution levels are determined by shipping market
- Perceived need for periodic ‘under pricing’
- Allows cross-subsidy between ship types to take into account the variations in demand between different ship types
- Long term trends for shipbuilding show periods of sustained loss-making with barriers to exit and limited options for diversification

Issues for Shipbuilding

- Agreed basis of 'Fair Pricing'
- Cyclicality
 - Shipbuilding Prices
 - Shipbuilding Production at Ship Type level
- Overcapacity
- Rapid emergence of new capacity
- Shipping market influences
- Abuse of regulation process
- Vertical integration with supplier & customer markets causes a pincer effect

Specific Issues

- Injurious Pricing
- Price Collusion
- Dominance and Abuse of Position
 - Two largest shipbuilders accounted for 13% (Hyundai Group) and 12% (State owned CSSC + CSIC)
- Predatory Actions
- Cartel Behaviour
- Cross – subsidy within Supply Chain
 - Why is this different for Shipbuilding

Non-Price issues

- Market Access – a few examples of issues in localised markets
 - USA – Jones Act
 - Brazil – Local content requirement
 - India – preferential taxation for domestic ships built in Indian yards
- Relationship to subsidy control in certain economies
- Centre of gravity of many international maritime organisations lies in the West whereas nowadays shipbuilding lies predominantly in the East

Process Issues

- Points of Agreement
 - Global market
 - Concern over abuse of process
 - Periodic ‘under pricing’ but not on time limits
 - Dislike of pricing mechanism by customers
- Points of Diversity
 - Need for pricing mechanism
 - Basis of fair pricing
 - Integrated product market?
- Mechanics of Representation
 - Government approach brings in other issues
 - If market is global why is nationality relevant

Way Forward

- Consensus
 - Clean start
 - Future proofing
 - Industry focused
 - Interest categories - market leaders, minority players, new entrants and declining economies
- Common Ground
- Simple Principles
- Non - Starters
- Self Regulation