



Rationale for a Comprehensive Discipline

In an Ideal World...

- Like products
- Full market transparency
- Profit orientation

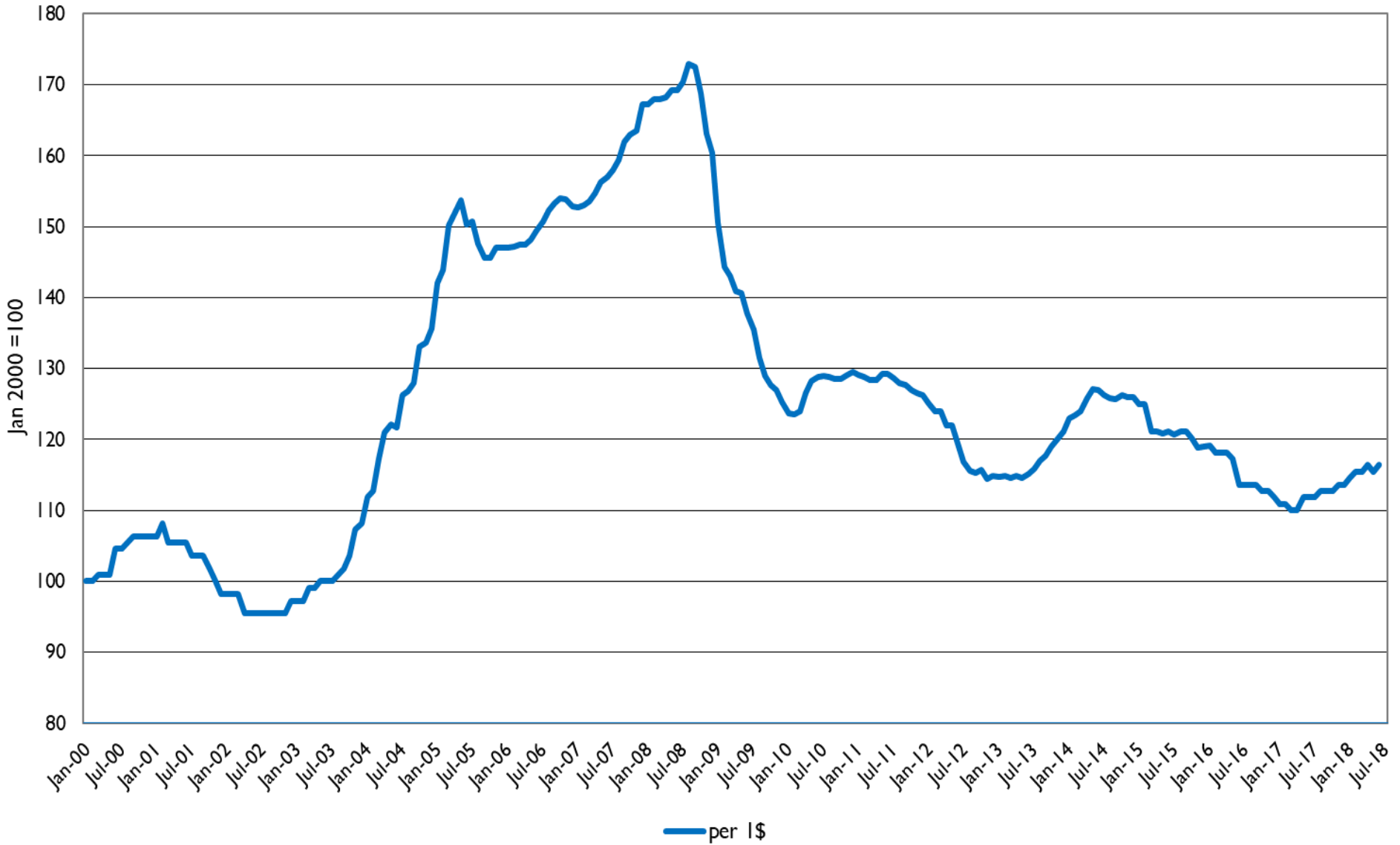
=> Perfect resource allocation

Perfect Imperfection

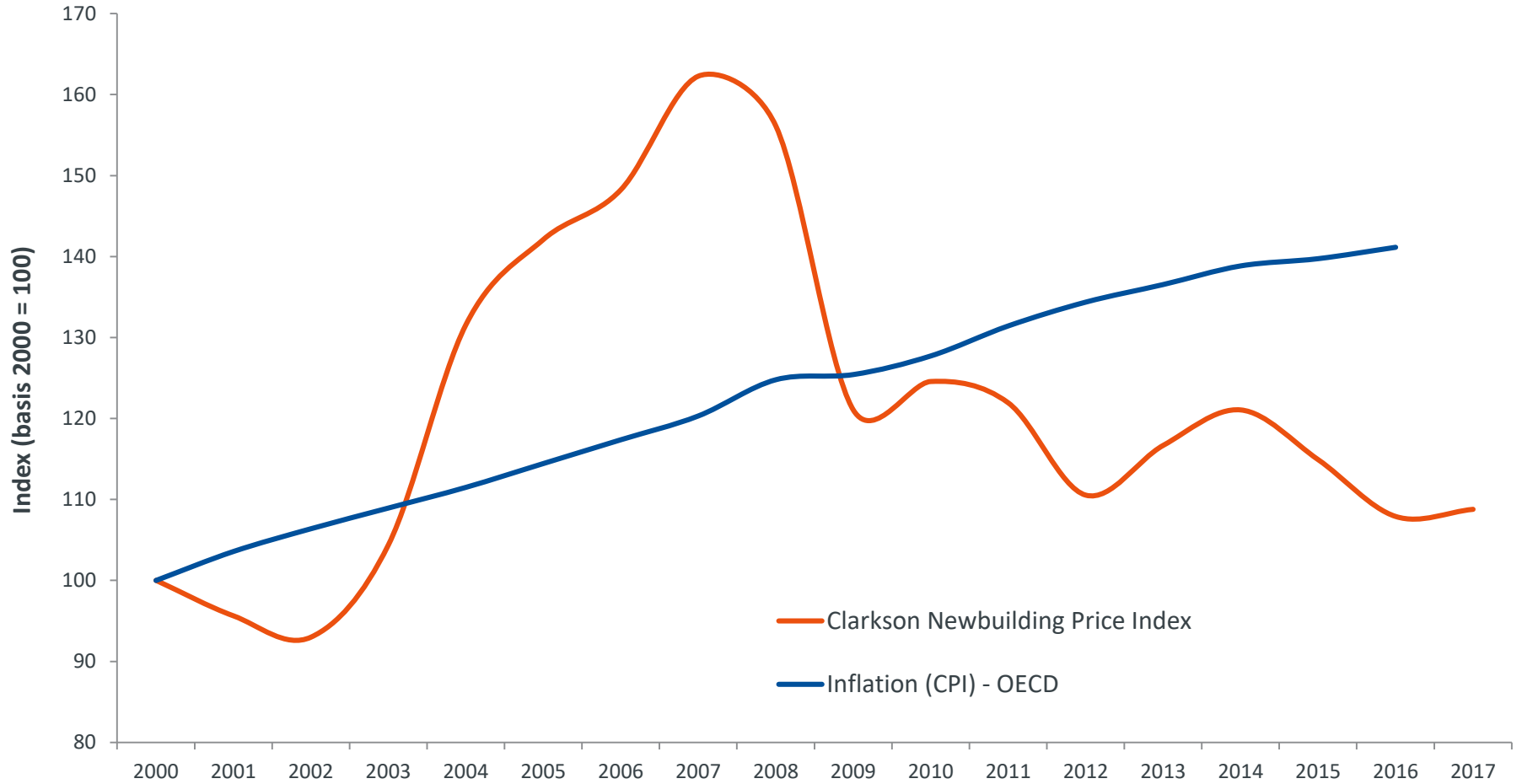
- Strategic industry!
- Unlike products
- Non-transparent decision factors

- Chronic overcapacity
- Lack of profitability
- Instability

Clarksons' Newbuilding Price Index



Newbuilding Price



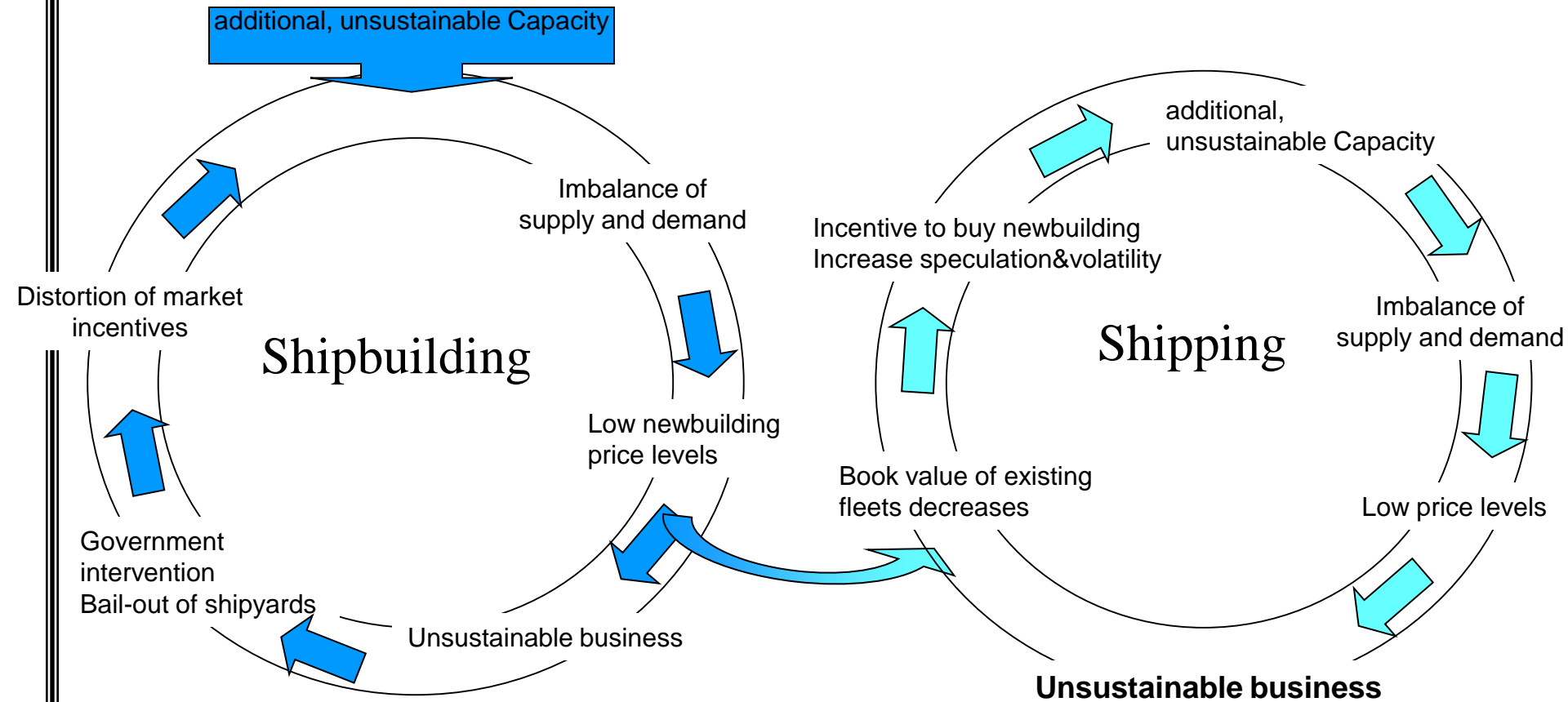
Individual vs Collective Rationale

- Low price order by Owner is rational
 - Lower capital cost = higher competitiveness
- Low price offer by yards are rational
 - Hoping for better times (contribution margin)
 - Betting on bail-out if necessary
- Reasons for subsidisation by Governments
 - Investment in future (strategic industry)
 - Politically opportune

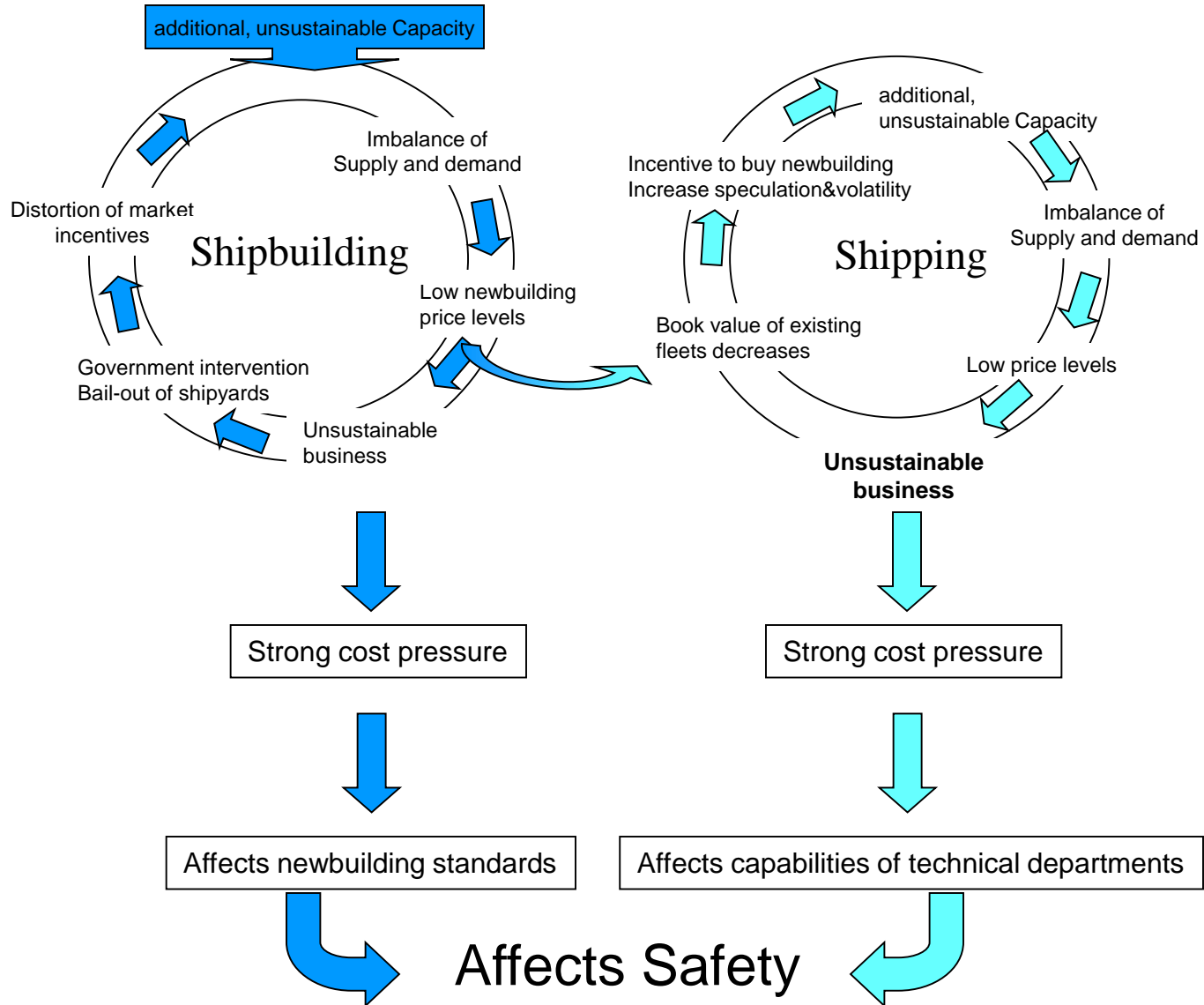
Collective Disaster

- Depressed markets (owners, yards, value chain)
- Corporate losses, job losses, state budget burden
- Insufficient resources to invest in technology development
- Insufficient resources for addressing safety and environment footprint

The Vicious Cycle: The Disease in Shipbuilding infects Shipping



...and even affects Safety



Policy Discipline

- Market interventions related to the actual transaction
 - Direct ordering, reserved cargo, subsidies to buyers
 - Financing conditions
 - Direct production subsidy, any form of state aid to the builder
- Market intervention related to the enterprise
 - Bail-outs of any kind
 - Tax schemes etc.
- Market intervention in favour of industry sector
 - Rules and regulations impacting factor costs e.g. labour, energy, exchange rate, land etc.

Corporate Discipline

- Legal compliance
- Normal value prices

Market Injury

- Timing is essential!
- Competitors suffer injury by
 - Loss of contract/business
 - Lower market price level
- Government Intervention only cause injury indirectly
 - Enabling competitor's behaviour
 - Compensating competitor's behaviour
- Long business cycle allow a long period of unsustainable pricing => Injury cannot be compensated

Subsidy discipline

No gaps please!



How?

- Complete definition of subsidies
- Notification obligation
- Enforcement of rules

Pricing Discipline

Ex-post is too late!



How?

- Obligations linked to use of public instruments such as finance
- Price plausibility (e.g. cost factor developments, past performance etc.)
- Prima facie evidence = open book obligation
- Violation to be determined based on concrete results and sanctioned by lasting exclusion from any use of public instruments
- Failure to execute sanctions leads to loss of on/offloading rights

Finally

An international, effective International Shipbuilding Agreement can work!

...provided all parties WANT to make it work.

Thank You!

More info:
www.seaurope.eu