



# IDENTIFICATION OF INJURIOUS PRICING AND SOME POSSIBLE INFORMATION SHARING MECHANISMS

Workshop on Factors Which Are Impacting Costs and Distorting the  
Shipbuilding Market

Paris, November 29, 2018

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## Background

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- The exploration of the Shipbuilding Instrument includes possible rules on:
  - subsidy and other support measures; and
  - injurious pricing.
- This presentation provides some possible mechanisms for discussion on injurious pricing.



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# 1) PURPOSE OF REGULATING INJURIOUS PRICING



## Purpose of regulating injurious pricing

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- Sales of ships at much lower price than “normal” prices would have a negative impact on competitive shipbuilders.
- Basically, purpose of regulating injurious pricing is to regulate such sales of ships.
- But, this can have two aspects
  - regulating “sales at low prices itself” or
  - regulating “support measures causing low prices”.



# Purpose of regulating injurious pricing

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## Two possible causes of low prices

Sales at low prices  
based on **own judgment**  
by private shipyards

Sales at low prices  
supported by  
**government subsidies**

- In case of low prices due to government support, to detect injurious pricing will help to detect market distorting support measures by governments.



## 2) CHARACTERISTICS OF THE SHIPBUILDING SECTOR



## Selected characteristics of the shipbuilding sector

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- Each ship has an unique size, performance and price.

→ Difficult to define normal prices





# Characteristics of the shipbuilding sector

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- Importing country and location of the operator are not necessary the same.
  - ➔ Difficult to impose import tax as sanction



# Characteristics of the shipbuilding sector

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- Characteristics of the shipbuilding sector should be taken into account to explore possible mechanisms on injurious pricing.
- Notably the following elements should be considered:
  - Effectiveness
  - Minimizing burden (notably in terms of reporting)
  - Transparency
  - Handling of confidential information



### 3) DEFINITION OF INJURIOUS PRICING



## Definition of injurious pricing

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- Possible core concept of injurious pricing :
  - Contract price is significantly lower than the **average contract price of like vessels**; or
  - Contract price is significantly lower than the **marginal production cost**.
- In any case, **some kinds of references prices** would be necessary to identify injurious pricing.
- But, how can we know average contract price or marginal production cost?



## Average contract price for like vessels

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- In some cases, contract prices are published (e.g. Clarkson statistics)
- But, in most cases, contract prices are not published.

### *Issues*

- How can we know average contract prices for like vessels without biased sample?



## Marginal production cost

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- Marginal production cost is a confidential information that only each shipyard owns.
- It is highly confidential in a competitive market such as shipbuilding.

### *Issues*

- Marginal production costs of shipyards cannot be found in the public domain
- Elements impacting marginal production costs (e.g. Steel price, exchange rate) evolve over time.



## Definition of injurious pricing

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- Ideally, reference price should be clear, transparent and easy to get by everyone.
- However, it appears difficult to know average contract price of like vessel or marginal production cost without a new mechanism specific of information collection/sharing in the shipbuilding sector.



## 4) POSSIBLE MECHANISMS





## Possible reference price to identify injurious pricing

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- It is not efficient that each authority who wants to appeal against injurious pricing investigates and proves what was the average contract price or the marginal production cost.



### *Possible mechanisms*

- Clear reference price that is always available for everyone
- Mechanisms to collect and share contract prices
- By companies of shipbuilding economies
- Taking care of confidentiality of information



## Possible assessment of injurious pricing

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- Even if a contract price falls below the reference price, it would be inappropriate to immediately judge that the contract price is injurious.

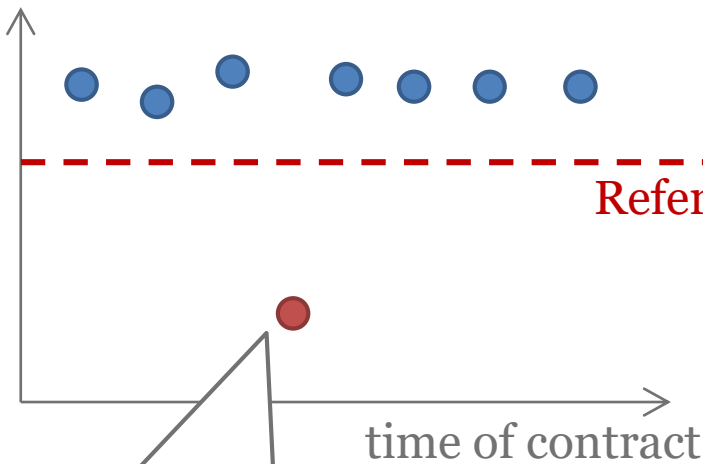


# Which is injurious pricing?

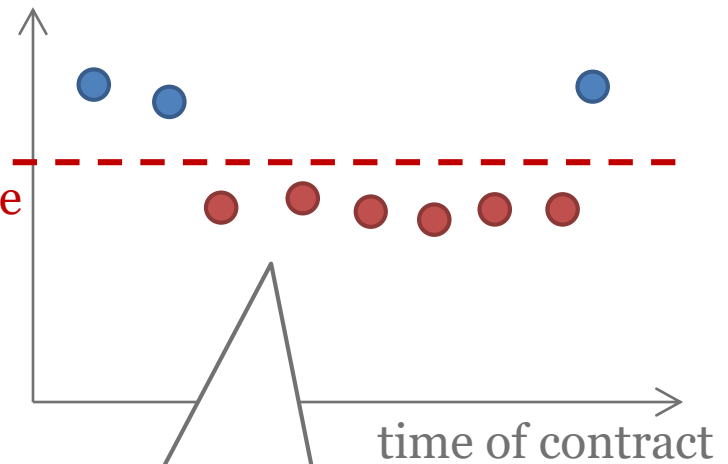
## Shipyard A

## Shipyard B

Contract price



One time sale for business reasons



Sales at low prices supported by subsidy



## Possible judgement of injurious pricing

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- It is difficult to automatically judge whether a contract price is injurious or not.
- Frequency, Business conditions of shipyards and existence of government support should be taken into account.



### ***Possible mechanism***

- Reference price could be used only for sorting out the sales in question.
- Eventually, injurious pricing could be judged by a Panel on a case by case basis.



- **Option of possible mechanisms** would be:
  - To collect and share contract prices from shipbuilding economies in order to decide clear reference price that is always available for everyone.
  - This reference price could be used only for sorting out the sales in question.
  - Eventually, injurious pricing could be judged by Panel on a case by case basis.



Thank you.