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COMMISSION REPORT TO THE COUNCIL

State aids for shipbuilding in the first half of 1983

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COM 236

<u>Report of the Commission to the Council</u>

1. In approving Directive 81/363/EEC on State aid to shipbuilding, the Council asked the Commission to lay before it regular reports on the aids given to this sector (Articles 3, 6, 7 and 8 of the Directive).

2. The report for the first half of 1983 is attached as Annex I.

3. Also attached (Annex II) is a schedule of current aid schemes in favour of shipbuilding.

Foreword

1. This report on aid to the shipbuilding industry covers the first half of 1983, a period which saw an acute deterioration in the industry's situation. To give some idea of this situation, the report for the first time includes data on the output and order books of the yards (Annex I, page 1). Comparison with the figures for the same period of 1982 shows a 30% fall in new orders for the Member States overall. A similar fall is seen in the level of order books at 30 June 1983 as compared with a year earlier.

   Taking the figures by country, it is seen that the dereriaration in order books was practically identical for each country except Belgium where they were stable and Denmark where there was a slight increase.

2. The acute worsening of the industry's problems, compounded by the general world recession and the pessimistic projections of shipowners(see the Commission's report "Outline of a restructuring policy for shipbuilding", COM(83) 65 final), makes it a matter of urgency to cut back the substantial overcapacity in the industry. Following information given by Member States the unused capacity is put at something in the region of 50%, especially in the large yards.

3. The table on investment aid on page 2 of Annex I shows that with the exception of Germany such aid was non-existent over the reporting period, reflecting a lack of major investment. This situation reflects the financial weakness of the yards, forced to keep open huge installations much of which are idle. There is little incentive to commit new capital to the yards until they have been rationalized and slimmed down to a size matching that of their potential market, in viable units capable of yielding a return on the investment.

4. A look at the level of aid to shipowners points to conclusions on the same lines as the above observations on order books, although it would be unwise to relate the figures in these two tables too closely as the information supplied on aid to shipowners does not distinguish between that relating to commitments to order and that relating to payments on account of building work already in progress. The figures for aid to shipowners can however be compared with those for the same period of 1982.(1) It is seen that the tonnage aided in Denmark quadrupled. In Belgium, for which there were no data in GRT or CGRT, a comparison of expenditure in national currency indicates a 50% increase.

The tonnage aided or now being aided by assistance to shipowners in the other Member States showed a fall of about 50%. These observations may be related to the fact that Belgium and Denmark do not give production aid but only aid to shipowners, and that, as shown in para. 1 above, they have increased or stabilized their order books. The relatively healthy shape of the Belgian and Danish yards' order books perhaps reflects the results of the structural improvements carried through in 1981 and 1982 (restructuring of the Belgian industry following the bankruptcy of a group, and yard closures and major modernization of other yards in Denmark) as well as the advantage of the close relationships between shipowners and shipyards in the two countries.

It cannot be claimed that aid to shipowners as such is more effective than aid to builders, however, for in other Member States (Italy, France) both systems exist and can be cumulated. The inventory of credit facilities for ship purchases on page 4 of Annex II confirms that the majority of Member States grant substantial aid to shipowners in conjunction with production aids.

The crux of the problems of the Community shipbuilding industry can be be said to be one of competitiveness, although one would not wish to underestimate the severity of the competition the yards are facing from some third countries. Whilst some small or medium-sized yards specializing in high value-added products are able to hold their own in such segments of the market, in the present market sitiation it is virtully impossible for the majority of yards in the Community, and especially the large ones,

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(1) COM(83)53.

against competition from the yards of newly industrialized or developing countries building common types of vessel at low prices, to win orders at prices covering their production costs. On the other hand the well-known links between shipowners and yards such as exist in Denmark, for example, facilitate either a high degree of specialization or greater flexibility making for a more even supply of work.

5. The table showing production aid (Annex I, page 4) concerns only France, Italy, the Netherlands and the United Kingdom. If the figures are compared with those for the first half of 1982, a more or less marked fall is found in the levels of aid granted by the various countries. A fall in terms of the weighted average rate of aid per tonne only occurred in the Netherlands and the UK, however. In the Netherlands a 3.5% decrease in the rate of aid was accompanied by a 30% drop in the tonnage assisted. In the UK a rate decrease of a similar amount was combined with a fall in assisted tonnage of 40%. However, it should be noted that British Shipbuilders made a loss of UK£ 127 million in 1982-83. Taking only that part of this figure relating to the losses of the yards building merchant ships, it is found that the writing off of these losses is equivalent to a further 6% on the aid level.

In France and Italy, although the minimum aid levels decreased, the weighted average rate by CGRT rose sharply. These two countries showed marked differences in the number of vessels built, however.

In France, whilst the tonnage aided was unchanged, this figures related to only 5 ships as against 16 in 1982. The increase in the weighted average rate per tonne is due to the fact that the aid rates are higher for large vessels.

In Italy, for the same tonnage there was a triping in the number of units built, showing perhaps that the large yards had gone over more and more to building small or medium-sized ships. The last two observations should be qualified in that the information the Commission has does now allow it to discern the incidence of aid, either as regards the type of vessel built or as regards the size of the yards building them. Given that the purpose of aid within the framework of the restructuring of shipbuilding in line with the objectives of the Fifth Directive is to restore its competitiveness by favouring the yards that have the best prospects of becoming profitable again (often medium-sized or small yards) and steering them towards the most profitable segments of the market, generally medium-sized or small ships with high value-added, there is a need to think carfully about how aid can be made more effective. This is all the more urgent since the production aids that have been given during the reporting period, even when very generous, have been unable to bridge the gap between the costs of Community yards and the prices quoted by third countries, particularly Korea, for large vessels.

6. In accordance with Article 10 of the Fifth Directive, the Commission proposes to discuss this report with the national experts.

This discussion should yield some useful insights into the effectiveness of aid, the performance of yards and the progress of restructuring.

Sharing as it does the concern repeatedly expressed by the European Parliament about the shipbuilding industry and its indispensable restructuring, the Commiission needs to acquire a deeper knowledge of the problems of the industry by gathering the fullest possible data on the yards and the public aid they receive.

During the period covered by this report the Commission sent the Member States a questionnaire asking for certain data on the shipbuilding industry and public aid to it. It is essential that the Member States should send full replies to the questionnaire as soon as possible to facilitate a judgment of the effectiveness of aid and a review of the progress of restructuring.

SITUATION OF THE ORDER BOOKS OF THE SHIPYARDS IN THE COMMUNITY

ANNEX I

1.0000 GRT

1st half 1982/1st half 1983

	New orders		State of the order book		Ships completed	
	1st half 1982	1st half 1983	on 30.6.1982	on 30.6.1983	1st half 1982	1st half 1983
BELGIUM	-	56,0	213,2	216,7	79,2	93,1
DENMARK	89,6	181,9	556,0	620,1	176,4	200,6
F.R. of GERMANY	434,9	236,1	1.151,7	672,8	304,4	515,9
GREECE	4,5	1,8	203,5	163,1	43,5	15,9
FRANCE	78	100,8	1.052,9	674,3	168,0	252,6
IRELAND	-		18,7	2,1	-	18,9
ITALY	82	20	425,2	347,4	71,8	161,9
NETHERLANDS	228,5	123,0	628,8	417,9	178,7	198,9
UNITED KINGDOM	139,2	47,6	709,3	518,4	203,5	201,8
TOTAL EEC	1.056,7	767,2	4.959,3	3.632,8	1.225,5	1.659,6

Source : Lloyd's

ANNEX I

Aid to investment : Article 3 of the 5th Directive on aid to shipbuilding.

Period : January-June 1983

MEMBER STATE	Amount of investment	Nature of aid	Effect on production capacity	Type of aid scheme applied
- Belgium				
- Denmark				
- F.R. of Germany	28,020 Mio DM	10% of investment	Replacement of an old floating dock. No effect on production capacity of shipbuilding	Project of common interest. Aid scheme for improvement of economic and regional structures
- France				
- Greece				
- Ireland				
- Italy				
- Netherlands				
- United Kingdom				

2. Aid to shipowners - Volume of contracts aided.

Period : January-June 1983

	Total volume		For building in national yards		For building in other EEC countries		For building in third country yards	
	GRT	National currency (mio)	GRT	National currency (mio)	GRT	National currency (mio)	GRT	National currency (mio)
BELGIUM	162.800[1]	5.834,80	162.800	5.834,80				
DENMARK	123.000	1.972	123.000	1.972				
F.R. of GERMANY[2]								
FRANCE	118.878[3]	695,28	7,928[3]	224,40	87.600	324,23	23.250[3]	146,65
GREECE								
IRELAND								
ITALY	374.234	9.345	374.234	9.345				
NETHERLANDS	69.315	578,70	49.413	476,10			19.902	102,60
UNITED KINGDOM	24.263	50,87	24.263	50,87				

[1] TPL.
[2] Decisions on the granting of aids to shipowners are taken during the second half of the current year.
[3] GRT.
[4] A volume of 10.000 GRT for 93 Mio Hfl did not benefit from any aid.
[5] The British scheme is aimed solely at shipowners who give orders to national shipyards - OECD conditions.

ANNEX I

3. Production aid: Articles 6 and 7 of the 5th Directive on aid to shipbuilding

Period : January-June 1983

MEMBER STATE	Number of aided cases	GRT	Estimated proportion of contract price	Estimated average weighted by tonne
- Belgium				
- Denmark				
- F.R. of Germany				
- Greece				
- France[1, 2]	5	104.970 GRT	Large and medium-sized ships 20% Small ships 8 to 11%	19,74%[1]
- Ireland				
- Italy	12	7.961	13,2% to 22%	18,83%
- Netherlands	18	40.035	2,2% to 17,5%	9,13%
- United Kingdom	10	113.037 GRT	7,22% to 15,31%	14,40%

[1] 1 unity of 3480 GRT did not benefit from any aid.
[2] Plus price guarantee.
[3] Plus shipbuilders' Relief, 2%.

LIST OF AIDS AND INTERVENTIONS FOR SHIPBUILDING

a) Aids to shipbuilding

January 1984

	Description	Level of intervention	Remarks
FR Germany	1) Hamburg – allocation of DM 35 m for investment in the port of Hamburg and conversion of the shipbuilding sector to shiprepair and other sectors (1978 – 1983)		DM 31 m for investment on publicly-owned land. DM 4 m for investments on private land
	2) Lower-Saxony – subsidies up to DM 3 m		For diversification measures (out of shipbuilding)
France	– direct aid for construction	20% of the contract price for large and medium-sized yards 10% of the contract price for the small yards. Cost escalation cover over and aboves.	The maximum tonnage to be built with production aids is limited at 250.000 c.g.rt
Ireland	– direct aid for construction	30% of the contract price from 1.7.1983 to 30.6.1984. From 1.7.1984 25 %	
Italy	– direct aid for construction (budget allocation: Lit 560 Mrd 1981-1983)	25% of contract price (30% for the Mezzogiorno region)	The Commission has authorized this scheme in 1983 under restrictive conditions
Netherlands	– direct aid for construction	4.5% to 8% of the contract price according to the price of the ships.	This scheme has been approved by the Commission for 1983 and 1984 taking in account that the rates will fall respectively to 3% and 7% in 1984 Estimated budgetary allocation 1983 69 mio HFL – 1984 46 mio HFL
United Kingdom	– single refund of certain taxes (shipbuilders' relief)	2% of the construction cost	
	– direct aid for construction 5th tranche of Intervention Fund of UKL 50 Mio (July 1982-July 1983	Max. 17% of contract price (incl. shipbuilders' relief) Northern Ireland: 18% of contract price (excl. shipbuilders' relief)	July 1982-July 1983 This scheme has been extend to January 1984.

b) Credit facilities for sales

	Description of aid	Qualifying transactions	Level of intervention	Remarks
Germany	- interest rebate	All sales	- maximum interest rebate 2% (limit OECD conditions) (1)	special scheme for ships
Belgium	- interest rebate	Sales to other Member States and third countries	- OECD conditions	special scheme
Denmark	- preferential credit	All sales	- OECD conditions	special scheme for ships
France	- preferential credit	Sales to other Member States and third countries	- OECD conditions	general scheme
Ireland	- preferential credit	All sales	- OECD conditions	special scheme for ships
Italy	- preferential credit	All sales	- OECD conditions	special scheme for ships
Netherlands	- interest rebate	All sales	- maximum interest rebate 2% limit OECD conditions	special scheme for ships
United Kingdom	- preferential credit	Export sales	- OECD conditions	general scheme

(1) Repayment period 8 1/2 years, interest rate 8 %, down payment 20 %.

c) Credit facilities for purchase involving aid to shipbuilding

	Description of aid	Level of intervention	Remarks
FR Germany	Financing facilities for investments by German owners on purchase of ships in a Community yard or in third countries	Grant of 12.5% of contract price (special grants: max. 5% of contract price)	
Belgium	Credit facilities for Belgian owners on purchase of ships in a Community yard or in third countries	Credit at 4 or 5% for 15 years (with one year moratorium on repayment) on 70% of contract price (Law of 23.4.1948)	
Denmark	Credit facilities for Danish owners on purchase of ships in a Community yard	Credit at 8% for 12 years (with 2 years moratorium on repayment) on 80% of contract price	
France	Financing facilities for investments by French owners on purchase of ships in a Community yard or in third countries	Grant of max. 7.5% of contract price	The total amount of the aid must not exceed FF 30 mio
United Kingdom	Credit facilities for the purchase of ships by British owners in British yards (Home Credit Scheme)	- OECD conditions of 18.7.1979, - in addition, a subvention scheme has been introduced under Section 25 of the Industry Act 1975	The application of this scheme must not result in conditions more favourable than those contained in the OECD Understanding
Netherlands	Financing facilities for investments by Dutch owners on purchase of ships in a Community yard or in third countries	- grant of 12% of contract price - investment premium of 2.3% during 5 years	
Italy	Financing facilities for investments by Italian owners on purchase of ship in a Community yard or in third countries.	- Half year grant during 12 years of 2.75 % of the contract price (3.20 % for tankers under 5000 DWT and for other vessels under 3000 DWT)	

ANNEX II

d) Price guarantee mechanism

	Description of aid	Level of intervention	Remarks
France	Insurance scheme against overruns of certain costs due to inflation.	Intervention relates to an increase in excess of 6.5%. The prime amounts to 1%.	This scheme is applicable to all goods export contracts.
Italy			The Commission has not authorized the application of the price guarantee foreseen by Law 598 for the period 1981 to 1983