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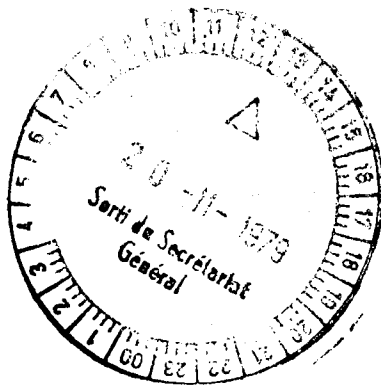
COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL .

SHIPREPAIRING SECTOR IN THE EEC



1. BACKGROUND

- 1.1. The Fourth Council Directive of 4 April 1978 on aid to shipbuilding (78/338/EEC) lays down the general objectives for the Community ship-repairing industry in the second paragraph of the preamble : "a sound and competitive ship-conversion and shiprepairing industry is of vital interest to the Community and contributes to its economic and social development, by providing a substantial market for a range of industries, including those using advanced technology, and as an employer in a number of Community regions; whereas this is also true of ship-conversion and ship-repair".
- 1.2. However, shiprepairing is covered by only certain articles of the Directive as at the time of preparation the Commission's picture of the sector was not sufficiently clear to enable it to be dealt with fully in the Directive. Hence, having defined both shiprepair and ship-conversion for the purposes of the Directive, it merely provides for the collection of information on investment in the sector (Article 4(2)), for rescue measures of individual undertakings (Article 5), etc..., without offering a solution involving crisis measures.
- 1.3. Consequently, a statement entered in the Council minutes dealing with the Fourth Directive noted that "while recognising that this problem (of the shiprepairing sector) is of some urgency in certain Member States, the Commission does not feel able at present to propose that a Community-wide solution be included in the Article of the Directive dealing with measures to combat the crisis". The statement also commits the Commission to "examine the problems of shiprepairing with the Member States without delay and to submit a report to the Council, together with proposals based on that examination". Furthermore, the Commission stated that, in view of subsidised third country competi-

tion, it was prepared to give sympathetic consideration to any aid project proposed by a Member State for the reorganization of the sector.

2. SUBSEQUENT STEPS

2.1. The Commission has analysed the shiprepairing sector after seeking detailed information from Member States. The main conclusions of this analysis, which is embodied in the annexed report drawn up by the Commission in consultation with Member States, are summarized in paragraph 3 below.

2.2. Since the adoption of the Fourth Directive certain Member States have put forward aid-schemes for shiprepairing.

2.2.1. Netherlands - On 18 January 1979 the Commission accepted an aid-proposal whose objectives was the restructuring of ship-repairing in the port of Amsterdam, under which employment would be reduced by 35 % and 3 out of 5 floating docks would be sold off. (Ref. SG(79)D/434).

2.2.2. France - On 14 August 1978 the Commission approved a FF 17 million package of emergency rescue measures for the Terrin Group at Marseilles. Furthermore, on 3 May 1979 the Commission authorised measures involving aid of FF 38 million which (1) constitute salvage for the Terrin Group as well as for Flandres-Industries and Ziegler at Dunkirk ; and (2) encourage regroupings to provide 2 repair yards per port. (Written procedure E 418/79) (SEC(79)674) : Commission's letter ref. SG(79)D/5506).

3. ESSENTIAL POINTS OF THE COMMISSION'S ANALYSIS OF THE SECTOR

3.1. Situation of the industry

The industry is marked by the following major characteristics :

- (i) poor dock-occupancy rates, together with a significant loss of employment since 1975, a notable drop in turnover in real terms and a transition from profit to loss which has been particularly serious in some Member States. However, this has been somewhat

alleviated by demand for facilities for smaller vessels arising from local traffic, fishing, etc.....

- (ii) strong competition from certain low-wage third countries. This problem is particularly severe for medium to large ship firstly because of competition from Spanish and Portuguese yards which are well-placed to exploit the repair market for tankers in particular ; and secondly because of low freight rates and consequently low ship immobilization costs, which tend to make lower-priced third country yards more attractive to shipowners;
- (iii) the varied structures of the industry throughout the Community.

3.2. The causes of the industry's problems

The following were identified as the major causes of problems for the Community's repair industry :

- (i) cyclical dependence on maritime transport, together with the relatively low wage of the world fleet and recent technological advances in ship design to require less maintenance ;
- (ii) The high wage rates compared to those of the main competitors who generally do not adhere to the social standards of the International Labour Organization; the burden of social contributions falling on employers and the payment of contributions/wages for idle time; in certain member states poor productivity and the existence of labour relations problems.
- (iii) in certain Member States, outmoded equipment and unsuitable location;
- (iv) in certain Member States, inefficient structures with a multiplicity of very small firms ; in some others, adverse effects of close integration with shipbuilding in depressed market conditions, although there can be short-term advantages.

4. SOLUTIONS

- 4.1. In view of the marked diversity of the circumstances of the industry ⁽¹⁾ in the Community, measures to be taken would necessarily vary from case to case. However, the major points of a sectoral strategy would include the following.
- 4.2. It would clearly be desirable to increase the competitiveness of the industry by retaining those areas where Community yards are already competitive, viz. facilities geared to handle ships in the 20 - 80,000 DWT category, sophisticated repairs and major conversions ; while not encouraging investment in larger yards whether by sectoral, regional or other aid measures.
- 4.3. Aid where granted should generally contribute to an increase in productivity to counteract low-wage third country competition, modernisation and reduction in employment. Such a strategy should have a social dimension the essential aim of which would be to allow the industry to increase its competitiveness in the most favourable social conditions.

5. CRITERIA FOR STATE AIDS

5.1. Investment aid

Investment aid, whether under sectoral, regional or other measures, would be permitted only if it did not entail any increase in capacity and genuinely contributed to increased competitiveness.

5.2. Salvage measures

These are already provided for by Article 5 of the Fourth Directive, which requires that such aid should be intended as a temporary measure, pending a definitive solution, in order to deal with acute social problems.

(1) Member States have with one exception agreed that, since ship conversion is largely undertaken in repair rather than newbuilding yards, aids to the conversion of ships should fall to be considered under policy towards repairing rather than newbuilding aids. The Federal Republic of Germany considers that only smaller conversions should fall under policy on shiprepairing, while larger conversions (as defined in Article 1 of the Fourth Directive on aid to shipbuilding) should fall under that Directive.

5.3. Crisis aids (1)

5.3.1. In view both of the high level of intra-Community competition in shiprepairing, and the excess capacity which currently exists in the sector, production aids would not be considered compatible with the common market in the present market circumstances.

5.3.2. Nonetheless, where Member States are confronted with particularly difficult situations, the Commission would examine ad hoc crisis measures proposed by Member States. In cases which the Commission was able to authorise, it would specify certain conditions including degressivity of aid and a link to restructuring objectives, which in current circumstances may clearly be taken to mean a reduction in capacity, including employment.

6. FURTHER ACTION

It was agreed that :

- (1) regular multilateral discussion and examination of the shiprepairing sector would continue, while aid schemes and proposals would be considered by the Commission on an ad hoc basis ;
- (2) the annexed report be updated annually in discussion with Member States ;
- (3) a report, of which this memorandum represents the draft, be transmitted to the Council.

(1) The Commission acknowledges Member States' views that, in individual shirepairing contracts, it may be necessary exceptionally to offer aid in order to match competing third-country offers, subject to prior agreement by the Commission.

THE SHIPREPAIRING SECTOR IN THE EEC1. WORLD SITUATION

- 1.1. In response to the rapid increase in demand for oil and bulk seatrtransport in the 1960's the tonnage of the world fleet more than doubled between 1965 and 1975, while the increase in the number of ships of over 5,000 deadweight tons was especially marked. This expansion in the world fleet, and particularly in large ships, was accompanied by a dramatic increase in investment in shiprepair facilities: over the period 1966-1976 the number of large drydocks (ie. docks capable of repairing vessels over 50,000 DWT) more than doubled, while the total deadweight capacity of drydocks increased nearly 3.5 times. Within this development a very substantial proportion occurred in non-member countries such as Japan and the Iberian Peninsula.
- 1.2. However, in recent years there has been a marked fall in demand for repair facilities which has largely stemmed from the reduction in the average age of the world fleet after the large new building programme, technological advances which has reduced the need for repairing and also the post-1973 shipping recession. In consequence, the current position in the sector is one of world imbalance of supply and demand, particularly in facilities for vessels of over 50,000 DWT.

It has been estimated that, if total world demand had been spread evenly over world drydock capacity for ships over 50,000 DWT in 1976, there would have been a total dock occupancy rate of only 39 %. Within this figure, however, it is in capacity for ships over 300,000 DWT that dock-occupancy rates were lowest (8 %). Similarly, estimates of occupancy rates of docks of all sizes in Europe were approximately 70 % in 1976, falling to only 50 % to 60 % in 1978.

2. SITUATION OF SHIPREPAIRING IN THE EEC

- 2.1. Since the mid-1970's there has been a marked decline in shiprepairing in the EEC as shown by the following aspects :
- (i) employment. Direct employment in shiprepairing fell by 4,700 (7 %) from approx. 67,400 to 62,700 between 1975 and 1977. However, within this average, large declines are concealed, eg. 33 % in Belgium, 17 % in France. Indirect employment has also declined significantly. However, in Holland, Denmark and Ireland, employment either remained stable or actually grew over the period 1970-77. Furthermore, developments in the course of 1978 have continued the reduction in employment. At Marseille (France), + 2,000 jobs have already been lost, while a further + 500 jobs are at risk. In the Netherlands, it is envisaged that + 1,200 jobs will be lost over the next few years. In the UK Western Shipbuilders was closed down (+ 1,200 jobs). A total of 1,700 jobs were lost in the industry in 1978, while over 1,000 were lost with the closure of the Falmouth Yard in early 1979.
- (ii) turnover. Similarly cash turnover of 1,440 m. U.A. in 1975 fell to 1,306 m. U.A. in 1977. Moreover, turnover in real terms has fallen sharply in most countries, eg. 48 % in Belgium, 20 % in France, 32 % in Italy between 1975 and 1977, by 36 % in Holland between 1974 and 1977, by 12 % between 1974 and 1976 in the UK; in Germany and Denmark, however, in the period 1975-1977 real turnover fell by only 10 % and 8 % respectively.
- (iii) profit/loss. With few exceptions, most Member States' industry seems to have gone from profit to loss since 1975, eg. France, where profits of 3 m. U.A. in 1975 became losses of 17.3 m. U.A. in 1977.

2.2. Member States' replies to the Commission's questionnaire point to the following main causes of the current situation in the EEC shiprepairing industry:

- (i) in the world context described in paras 1.1. - 1.2. above, strong competition arises from low-wage third-countries (eg. Singapore, Taiwan, Hong-Kong, South Korea, Bahrein, Brasil, Portugal, Spain, Yugoslavia, Greece, Malta and certain Middle-Eastern countries) where with the recession in bulk shipping in particular it has often been necessary to compete for smaller vessels than facilities were designed for - the size of vessels which EEC yards are in general best equipped to handle.
- (ii) lower freight rates in the shipping market have two notable effects. Firstly, they make price the primary consideration in the ship-owner's choice of repair-yard. Secondly, they have reduced ship immobilisation costs, thus enabling shipowners, particularly tramps, to send vessels to more distant ports in search of a favourable repair price than used to be the case when quality and other non-price aspects were often of equal importance. Hence many third-country competitors who enjoy the benefit of low wages have attracted a substantial volume of business from EEC yards where wages are significantly higher in an industry which, moreover, is labour-intensive.

One qualification needs to be added: this phenomenon affects mostly medium-to-larger-sized ships, so that yards specialising in local traffic and in smaller vessels are less concerned. However, EEC yards situated on the Mediterranean and dependent on local traffic appear to be more exposed to low-wage third-country competition (Spain, Malta, Greece) than those located on the North-West European seaboard where wage-costs are high throughout the area.

- (iii) particular problems for tankers and large bulk-carriers. In this field EEC yards are losing out to the Portuguese and Spanish yards which, through their location on main ballast-legs, are in a strong position to attract business in such vessels from EEC yards.

3. PROBLEMS OF THE EEC SHIPREPAIRING INDUSTRY

3.1. Problems related to workforce

3.1.1. Shiprepairing is a labour-intensive industry. Where labour-costs are high, the industry is likely to be at a considerable disadvantage vis-à-vis competing industries with low wages.

Wages appear to be highest in Belgium, Germany, Denmark and the Netherlands, while the Italian, UK and Irish industries had lower wages. The high-wage industries showed a high labour-cost content in repair contracts, although the Italian industry had the highest relative labour-cost content ie. inclusive of social contributions etc. at approx. 84 % . The French industry also had a high labour-cost content at 56 %, especially as wages did not seem on information provided to be very high. In the UK, on the other hand, labour-cost content of contracts was relatively low (37 %). It should be added that the part of labour-costs represented by employers' social contribution is an important factor in costs in certain Member States. There is also a wide divergence in average annual working (ie. productive) hours, net of holidays, idle time, etc. (Germany 1,800 - 2,000 hours, UK 1,765, Belgium 1,688, Denmark 1,650, Ireland 1,600, Italy 1,550, Netherlands 1,300 - 1,350).

3.1.2. Certain countries - Italy and the UK - suggested that poor productivity was a major handicap (and in the UK may be presumed to have offset low-wage advantages). The French also suggested that underemployment was a major handicapping factor in their industry: between 1974 and 1977 work-force declined by 19 %, while working hours diminished by 32 %.

3.1.3. In several Member States special schemes are provided to compensate workers for idle time. While many countries did not comment on any adverse effect such schemes may have on competitiveness, some Member States - notably France, but also Italy and the UK - replied that such schemes had serious (if unquantified) effects on competitiveness. Other Member States suggested that the problem of idle time was mitigated if not solved by transfer of idle workers into other divisions of the firm (see 3.3.3. below).

3.2. Equipment and location

3.2.1. All countries but Italy said that their industry had sufficient equipment as required by current safety regulations (eg. for degassing). In the Italian industry lack of degassing equipment of the required standard was considered a serious handicap.

3.2.2. As to the condition of equipment in general, while most countries, especially France, found equipment suited to efficient operations, Italy, the UK and for one yard Ireland said that the equipment is outmoded and may be a handicap to efficient operation.

3.2.3. Location poses a wider problem. Whereas one of the strengths of the French industry is considered to be its favourable location, many German yards are limited as to size of ship they can handle by their location on rivers or canals, and the Irish and UK industries were unfavourably located at a distance from major sealanes, eg. Dublin, Newcastle, Belfast. The Italian industry is also said to be hampered by narrow channels unsuited to modern ships.

3.2.4. While repair docks are publicly owned in certain Member States, it is only in France where any form of concessionary tariffs are applied for their hire, and this in an unquantifiable manner since they are required to cover only borrowing charges and running costs which may be subject to general aid. Furthermore in France land on which repair centres lie is publicly-owned while drydocks and quays for shiprepair are in the main publicly financed.

3.3. Structure of repair-firms

3.3.1. Evidence provided by Member States' replies to the Commission's questionnaire and also available from other sources suggests that Community capacity is overwhelmingly concentrated in the small to medium range of repair-facilities. Thus only ± 30 docks can take vessels larger than 50,000 DWT.

Likewise the bulk of firms concentrate on the below 50,000 DWT range of vessels : turnover arising from ships smaller than this accounts for the vast bulk of business (varying from 50 % to 95 %).

Given that excess capacity is most marked in the facilities for larger vessels - although no "critical dimension" of dock can be reliably stated below which trading conditions are more favourable - it appears that this structure has to some degree shielded the Community industry as a whole from the consequences of overcapacity for large vessels.

- 3.3.2. Of the approx. 600 repair firms in the Community, information provided suggests that the bulk consists of small companies, employing less than 100 personnel. In some countries, eg. Italy, the number of small firms is considered problematic. However, small companies' turnover is in many cases sustained by relatively buoyant demand from coastal traffic and fishing vessels (estimated at 5 - 10 % of demand).
- 3.3.3. In Denmark, Germany and Ireland the major repair firms are often integrated with shipbuilding concerns, whereas in France and the UK repair yards are not normally integrated with other activities, eg. shipbuilding, marine and general engineering. In the remaining Member States the degree of integration varies as does the field of activity combined with repairing. Many of those firms which are integrated seem to enjoy advantages, eg. in flexibility of manpower deployment, which enhance their ability to withstand periods of recession in shiprepairing. However, in some Member States, eg. the Netherlands, firms engaged only in repair and having no building activities were in a stronger position because they had been unaffected by the current building crisis.

4. CONCLUSIONS

- 4.1. Clearly the major characteristic of the Community shiprepairing industry is its diversity: of facilities, of structures and, partly as a consequence, of the problems confronting it, as well as diversity of national views of the nature and gravity of the current market difficulties.
 - 4.1.1. In some Member States, demand is maintained at a satisfactory level by reason of the industry's concentration on smaller vessels and local and fishing traffic, while in others where facilities are geared to larger ships, especially tankers, the effects of the current market situation have been more severe. (This aspect is more fully treated in para 4.2. below.)
 - 4.1.2. There is also structural diversity. While in many Member States integration with eg. building concerns is regarded as having a positive effect, this is not always the case throughout the Community. Likewise, the standard of equipment, labour-productivity and the effect of location vary from country to country.
- 4.2. Nevertheless, certain general market trends are clearly discernible.
 - 4.2.1. There is a relatively strong and constant demand for repairs stemming from coastal and fishing traffic, ie. mostly in smaller vessels. Demand is similarly strong in major ports, with a captive market situation, eg. Hamburg, Rotterdam, Antwerp, with both smaller- and medium-sized ships being handled. However, with greater price competition and widespread tendering, the advantages of a captive market seem to be diminishing.
 - 4.2.2. There is a second type of demand, largely in medium-sized vessels. While world-imbalance of supply and demand may be less in this sector than for large vessels, Community yards, with high wage-rates in a labour-intensive industry, face increasingly stiff competition from low-wage third-countries in both Mediterranean area and the Far East.

This is exacerbated by the current shipping climate which has made the price of repairs the predominant factor in shipowner's choice of yard. It is in this area, however, that intra-Community competition is also greatest and that, consequently, aids granted by Member States are liable to cause greatest distortion.

- 4.2.3. In the market for larger ships, particularly tankers and bulkers, world overcapacity is greatest and the price-advantage offered by third country yards is most marked. Consequently, third country repair-yards, particularly in the Far East, but also in Portugal and Spain largely on account of their favourable geographical position, low wage costs and modern yards, provide very stiff competition. However, it is in this field that Community capacity is least and this has partly shielded the Community industry as a whole from the worst consequences of overcapacity.