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Brussels throws in the towel on EU shipyards

Wednesday 25 August 2010 by Justin Stares, Lloyd's List

A new free trade agreement between the EU and South Korea, due to be ratified in the autumn, provides fresh evidence that shipbuilding has been sacrificed to the greater god of trade in services

It is difficult to examine the state of European Union shipbuilding without concluding that Brussels has thrown in the towel.

While the word "sunset" has been lingering over the industry for a decade, this time there can surely be little doubt ship construction has been cut loose by regulators.

Cries of injustice from Euro MPs and words of sympathy from European Commission officials cannot hide the fact that industry has been sacrificed to the greater god of trade in services. There are, after all, few jobs left and definitely no votes in shipbuilding, at least on a national level.

For the latest sign that governments are unwilling to come to shipbuilding's aid, have a



flick through the new free trade agreement between the EU and South Korea.

The deal, scheduled to be ratified by the European Parliament this autumn, makes no mention of allegations of massive subsidising of South Korean yards. On the contrary, once implemented it will in fact remove the last remaining obstacles to South Korean ship exports to Europe in exchange for greater access for European financial services providers in South Korea.

If, that is, you can measure ships according to the classic parameters of imports and exports. European industry has held back from lobbying Europe's free trade negotiators due to the somewhat quaint notion that worldwide trade in newbuildings escapes normal definitions.

If a Chinese owner takes delivery of a South Korean-built vessel, flags it in Panama and trades between the US and Europe, which country has imported the ship? It is not clear. As always in the maritime sphere, the technicalities may confound. But one thing is sure: the vessel has not been built in Europe.

The beginning of the end can perhaps be traced back to the failed attempt by Europe to tackle alleged South Korean subsidies in the World Trade Organisation.

Both sides claimed victory after the 2004 trade panel ruling, but in retrospect it is quite clear Europe lost.

Since that date both industry and Brussels regulators have come to the sad conclusion that there is no legal answer to the inexorable rise of Asian shipbuilding (China has become the largest builder, though European industry ire is still directed at South Korea).

Earlier this year the Community of European Shipbuilders' Associations provided the European Commission with what it said was concrete proof of a vessel built at below cost, reportedly in a South Korean yard. Sources say the commission "does not know what to

do with the findings". CESA, which had promised to make details public, has since gone silent.

This attitude of acquiescence was previously on display when South Korean builder STX took a stake in Norway's Aker yards in 2008. Apoplectic executives from Fincantieri, Italy's cruiseship giant, descended upon Brussels, insisting the South Koreans be kept out of one of their only real niches. It was to no avail; the EU's free market dogma was at its zenith.

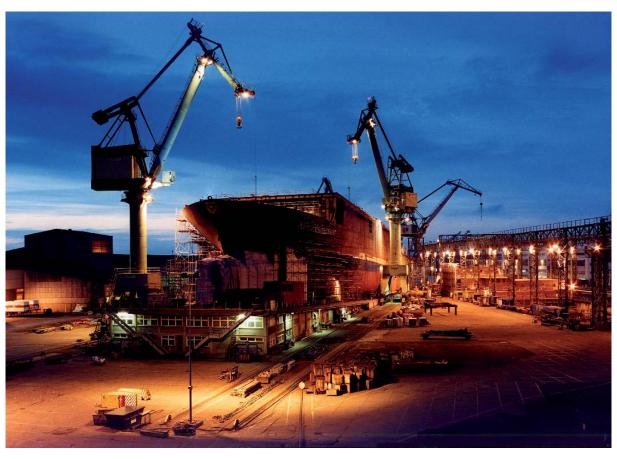
And not without cause: direct subsidies to European yards, let us remember, were actively discussed in the European Council of Ministers as recently as 2004.



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Ruth Paserman, European Commission official with shipbuilding responsibility

Indeed, it could rationally be argued that past European taxpayer largesse towards the shipbuilding industry has not in any way halted the relative decline. Some forward-looking governments (the UK, Sweden) saw the writing on the wall and decided years ago to abandon the sector.



The lights are going out: the SSW Schichau Seebeck Shipyard in Bremerhaven closed last year after 130 years of shipbuilding. It is to be refocused on steel construction.

Market forces are all that really matter — just look at the rush in newbuilding orders that accompanied the shipping bubble between 2005 and 2008. It could be argued that governments, even if they wanted to, are incapable of stemming the private sector tide. In this context, attempts over the last year to revive some kind of affirmative action among Brussels lawmakers seem to impartial observers to be something of a death spasm. With the commission tongue-tied and even CESA refusing to overtly advocate protectionism (the industry group prefers the term "stimulate demand") will anyone out there tell it like it is?

Cue a report from the most unlikely of sources: landlocked Austria. The Austrian Marine Equipment Manufacturers' association has put together a surprisingly robust paper entitled The European Union-Korean Free Trade Agreement which encompasses both equipment manufacturing and shipbuilding.

It is to a large extent a eulogy of South Korean policy. The South Korean government has the "necessary punch and strong will to defend these trade practices which contradict the WTO's Subsidies Agreement," AMEM writes. "Policymakers and central bankers support the strategy of continued expansionary fiscal and

monetary policies, vowing to facilitate the industry's recovery through aggressive fiscal spending, low borrowing costs and other pump-priming steps."

The report's authors coin an evocative phrase: "commando capitalism". They write: "Commando capitalism is forcing South Korea's state-owned banks like Kexim, Korea Export-Import Bank; Kamco, Korea Asset Management Corporation; or KDB, Korea Development Bank, to assist shipping companies [in paying] for new vessels and shipbuilding [in selling] ships for less than construction cost."

"The shipbuilding and equipment industry is right in the middle of a crisis of an exceptional dimension and there is not a single revolutionary approach to find a solution for the European industries"

John Kuehmayer, Austrian Marine Equipment Manufacturers representative

The report continues: "The Korean Government is in the process of using parts of its massive foreign currency reserves – an all-time high \$270bn – and national wealth to offer major credit support and other financial aid, primarily backed by state-run banks, to the nation's shipbuilders.

"Safeguarding of jobs might be a convincing argument when looking at these massive subsidies financed from the taxpayer's pocket, nevertheless it is in strong contrast with Korea's membership in organisations like the WTO and OECD, and their principles."

Association representative John Kuehmayer told Lloyd's List: "The shipbuilding and equipment industry is right in the middle of a crisis of an exceptional dimension and there is not a single revolutionary approach to find a solution for the European industries."

The association paper says: "AMEM does not want to stay mute. Although the smallest association of marine equipment suppliers in Europe, AMEM can't develop an understanding for the European Commission's initialling of a Free Trade Agreement with the Republic of Korea in general and the Chapter 11 on competition and subsidies in particular, being fully aware about the fact that this form of direct and indirect state aid is not only illegal, it has a distortive effect, constitutes an unfair practice and forms a massive obstacle for settling such an agreement." The FTA is, the report concludes "a dangerous precedent".

When asked if there is anything that can be done for shipbuilding, European Commission officials have taken a refreshingly frank line. "No", was the simple response one official gave this newspaper.

Ruth Paserman, the European Commission official with shipbuilding responsibility within the cabinet of EU enterprise commissioner Antonio Tajani, was equally frank when faced with an audience of trade unionists in the European Parliament. There was a "new trend" within the commission to "value the industrial base" rather than simply let it relocate, she said. But this trend would take time to spread across the 27 EU member states. "We are not [South] Korea. We are not a single country," Ms Paserman said. Policy re-orientation "takes time, which perhaps shipbuilding does not have. I hope this is not the case."

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Unofficially, Brussels officials doubt EU industry claims that they are on the road to wipeout. The length of newbuilding lead times is such that some European yards are still living off orders that date back to the bubble. Industry, on the other hand, claims that the tipping point will occur towards the end of this year, after which there is a one-way street towards naval constructions and spin-offs, nothing more: perhaps 50% of today's capacity.

It is quite possible that the fatalists within the commission have got it right; like computer manufacturing, the shift in the centre of gravity towards Asia cannot be altered. Why waste money trying? Those with protectionist reflexes would no doubt agree with the conclusion but argue that governments can, at least, postpone the inevitable.

One thing is for sure: when it has finally gone, there will be plenty of opportunity for endless lament about the shipbuilding continent Europe once was.

Lloyd's List

www.lloydslist.com

Lloyd's List, the leading daily newspaper for the maritime industry has voiced massive concerns about the future of the European shipbuilding and equipment industry in the context of the EU – Korea Free Trade Agreement in an article published on August 25, 2010.



The author, Justin Stares, is Lloyd's List permanent EU correspondent based in Brussels. It is quite amazing that the candid position of AMEM, the smallest marine equipment manufacturing association in Europe, was quoted several times.

INVENTORY OF SUPPORT MEASURES IN THE SOUTH KOREAN SHIPBUILDING INDUSTRY

Measure	Beneficiary
Six- to 12-month pre-shipment loans	\$2.2bn committed under scheme in 2009 (\$480m in 2008)
Let's Go Together shipping programme (sale and leaseback scheme)	62 vessels for 16 companies via Korea Asset Management Corporation, \$3bn: 17 vessels for five owners via Korea Development Bank, \$1.7bn
Funds for exports (designed to avoid cancellations)	Four LNG vessels and two containerships (\$1.2bn)
Buy and leaseback scheme (\$3bn)	Provides refund guarantees for shipbuilders and loans for owners
Government package to assist shipbuilding and shipping (Won21trn, \$17.6bn)	Loans and guarantees for yards and subcontractors; debt guarantees for owners who build at South Korean yards
Liquidity supply programme for shipbuilders (amount not stated)	Local owners and builders
Fast track programme for debt rescheduling or new loans (amount not given)	NokBong, Jinse, TKS, SEKO, YS Heavy Industries C&Heavy Industries
Debt rescheduling programme (Won240bn)	Daehan SB
Workout (debt rescheduling) programme (Won35bn in August 2009 and Won45bn in December 2009 / Jan 2010)	21st Century shipbuilding

Source

Austrian Marine Equipment Manufacturers/OECD WP6 Shipbuilding www.amem.at

