

# Bulletin

OF THE EUROPEAN  
COMMUNITIES



## Supplement 7/79

### **Shipbuilding**

**State of the industry  
and crisis measures**

Commission  
of the European Communities

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Bulletin  
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**First half-yearly report  
on the state of the shipbuilding industry  
in the Community**

(adopted by the Commission on 16 August 1979)

**Communication from the Commission to the Council  
on a scheme to promote  
the scrapping and building of ocean-going ships**

(adopted on 19 September 1979)

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**First half-yearly report  
on the state of the shipbuilding industry  
in the Community**

## Summary

I The aim of this report, the first of the half-yearly reports henceforth to be submitted to the Council, is to show present developments in the shipbuilding industry and to assess the effects of measures taken in Member States.

II (a) The general state of the shipbuilding industry is still marked by a decreasing order intake, reduced order books and continuous decline of employment. Since the Commission's Communication to the Council of December 1977 the situation of the industry has worsened. The industry's reserves are coming to an end. Developments in this sector have tended to be more serious than expected.

(b) Since 1976 the level of new orders represents only 50-60 % of completions, although the shipyards' output has been reduced by 25-30 % since 1976.

(c) The shipyards' workforce was reduced by some 50 000 between 1975 and 1978 (newbuilding sector). Further reductions in employment can be expected, especially if the present new-order intake continues at its low level.

(d) The shipbuilding crisis is closely connected with the shipping crisis, which generally is still marked by overcapacity. The tanker fleet, for example, increased by some 50 % between 1973 and 1978, whereas oil transport (measured in ton-miles) increased only by 9 % over the same period. Even though slow steaming has reduced fleet productivity, and therefore also the overcapacity, it is clear that the energy crisis, with its consequences for growth rates and hence for the development of world trade and for transport needs, may contribute to prolonging and deepening the shipping crisis. In consequence, the low demand for new-building may continue.

III According to market forecasts, the shipbuilding crisis will extend well into the 1980s and a substantial market upswing cannot be expected before 1982/83. Even in 1985 estimated shipbuilding production (some 18 million cgrt) will be below the average for the period 1975-77.

IV Restructuring measures are necessary to maintain or to re-establish within the Community a healthy and competitive shipbuilding industry. First results of restructuring efforts can be seen: in particular the Community has substantially reduced the production and to some extent the capacity of shipyards. Nevertheless, it must be said that much has still to be done and that restructuring is a protracted process which can only be achieved under a long-term strategy. The basic condition is that there must be at least some orders for new-building in order to allow minimum capacities to survive.

V Considering all these aspects, the Commission has examined ways and means of improving the demand situation. A Communication regarding a proposal for a scrap-and-build programme will be submitted to the Council.<sup>1</sup> This programme would have also favourable social implications for the sectors involved.

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<sup>1</sup> Communication from the Commission to the Council on a scheme to promote the scrapping and building of ocean-going ships (published as the second part of this Supplement).



## Introduction

1. In the Resolution of 19 September 1978 regarding the reorganization of the shipbuilding industry,<sup>1</sup> the Council noted that the Commission will prepare half-yearly reports on the state of the shipbuilding industry and on the progress made with its reorganization.

In its Communication to the Council of 9 December 1977<sup>2</sup> which led to the Council Resolution of 19 September 1978, the Commission analysed the causes of the present crisis which the shipbuilding industry is facing as well as the market prospects and the impact which these developments will have on the employment situation. It was stated that the first objective of Community policy on shipbuilding must be to make its yards competitive on the world market and that the gravity of the situation requires a strategy for the reorganization of this sector.

Since then the situation of the industry has worsened and it can be assumed that the crisis situation will continue during the coming years.

The aim of this first half-yearly report is to show the actual developments and to evaluate the effects of measures taken in Member States. In this connection it may be noted that the long-term character of the shipbuilding crisis makes it necessary to monitor very carefully the effects of measures taken in order to allow for an effective and smooth adaptation of the quantitative and qualitative capacity of the shipbuilding industry.

It is also the purpose of these half-yearly reports to verify continuously whether, and if so in what direction, additional action would be recommendable for the restoration of a healthy and competitive shipbuilding industry within the Community.

## Situation of the sector

### General remarks

2.1 The general state of the shipbuilding industry is still marked by further decreasing production levels, reduced order books and continuous reduction of employment. The new order intake, which is an indicator for future employment, fell to only 2 million cgrt<sup>1</sup> in 1978 and remained at this low level during the first quarter of 1979. This is below the level of 2.4 million cgrt, the Commission's initial production forecast for 1980, which was at that time regarded as a pessimistic figure. However, actual developments tend to surpass this estimate.

A quantitative and qualitative adaptation of the industry to the longer term prospects for the market has been carried out in most Member States, mainly in the form of reducing employment and production, but its effects are in general being outstripped by market developments.

Against this background one can further state that the competitiveness of the industry as a whole has not improved since the Commission's Communication to the Council in December 1977. On the contrary, the sharp decline of shipbuilding production, as a consequence of decreasing order intakes, has led to a general underutilization of building facilities. In addition, the intense competition has the effect of preventing shipyards from concentrating on an optimum production programme, thus inducing extra cost disadvantages. These developments — through which, together with depressed newbuilding prices, it is sometimes not even possible to cover the cost of material — will in the longer term also affect the shipyards' competitiveness and ability to develop innovations.

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<sup>1</sup> Cgrt = compensated gross register tons, tonnage which takes into account the shipbuilding work for a vessel, calculated on the basis of the grt and of special coefficients for different ship types and sizes (grt x coefficient = cgrt). New coefficients for the calculation of cgrt were agreed upon in the OECD in 1977. Figures for 1976 are based on AWES coefficients, which were the basis for the OECD coefficients (but not fully comparable). See also the annexed data sheet.

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<sup>1</sup> OJ C 229 of 27. 9. 1978; Bull. EC 7/8-1978, point 2.1.20.  
<sup>2</sup> Supplement 7/77 — Bull. EC.

The danger exists that – if a certain stability of new order intakes cannot be achieved – the industry may come into a state which would be detrimental to a smooth qualitative and quantitative adaptation of the sector.

### Production and new order intake

2.2 Table 1 shows the development of newbuilding completions and of the new order intake in the European Community.

Table 1

('000 ggr<sup>1)</sup>)

	1976	1977	1978	1st quarter 1979
<i>Completions</i>				
Belgium	139.8	82.2	165.2	32.2
Denmark	560.6	496.0	362.5	116.4
FR of Germany	1 468.0	1 364.6	1 029.1	139.1
France	672.4	609.6	430.6	95.2
Ireland	20.3	21.7	5.0	15.0
Italy	353.9	462.0	305.2	61.4
Netherlands	940.0	556.4	513.9	146.4
United Kingdom	985.1	782.8	718.4	141.7
Community total	5 140.1 <sup>2</sup>	4 375.2	3 529.9	747.3

### New order intake

Belgium	75.0	115.2	59.4	21.5
Denmark	317.1	281.0	263.8	38.9
FR of Germany	726.1	707.7	535.8	134.7
France	63.6	61.6	214.1	103.5
Ireland	19.2	5.0	3.0	—
Italy	301.5	148.9	330.0	4.1
Netherlands	626.4	732.4	376.5	39.7
United Kingdom	627.6	489.3	230.2	41.6
Community total	2 756.6	2 540.9	2 012.6	403.9

Source: Lloyd's Register of Shipping.

<sup>1</sup> 1976: ggr based on AWES coefficients.

<sup>2</sup> Estimated production on the basis of new OECD coefficients: about 4.8 million ggr in 1976.

Table 2

	Completions '000 ggr	New order intake	
		'000 ggr	% of completions
1976	5 140.1	2 756.1	53.6
1977	4 375.2	2 540.9	58.1
1978	3 529.9	2 012.6	57.0
1st qtr. 1979	747.3	403.9	54.0

Source: Lloyd's Register of Shipping.

Table 2 shows the ratio between completions and new order intake in the Community.

From Tables 1 and 2 it can be deduced that since 1976 the new order level represents only 50-60 % of completions, although the output of shipyards has been reduced by 25-30 % over the same period. However, new order intakes have shown a concomitant decline.

Table 3 shows the development of market shares of principal shipbuilding regions.

Table 3

	1976		1977		1978	
	'000 cgrt	%	'000 cgrt	%	'000 cgrt	%
<i>Completions</i>						
Community	5 140.1	23.3	4 375.2	20.6	3 529.9	21.3
Rest AWES <sup>1</sup>	3 145.7	14.2	3 278.6	15.5	2 303.1	13.9
(Western Europe)	(8 285.8)	(37.5)	(7 654.1)	(36.1)	(5 832.9)	(35.2)
Japan	8 348.0	37.8	8 358.0	39.5	6 120.5	37.0
Eastern bloc <sup>2</sup>			2 471.3	11.7	2 132.3	12.9
Other regions	5 444.4	24.7	2 698.1	12.7	2 461.1	14.9
World total	22 078.2	100.0	21 181.5	100.0	16 546.7	100.0
<i>New order intake</i>						
Community	2 756.6	17.2	2 540.9	18.1	2 012.6	18.6
Rest AWES <sup>1</sup>	1 903.0	11.9	2 076.6	14.8	1 367.8	12.7
(Western Europe)	(4 659.6)	(29.1)	(4 617.3)	(32.9)	(3 380.6)	(31.3)
Japan	7 337.5	45.9	6 245.9	44.5	4 333.9	40.1
Eastern bloc <sup>2</sup>			1 207.8	8.6	1 146.8	10.6
Other regions	3 985.3	24.9	1 969.6	14.0	1 935.0	17.9
World total	15 982.4	100.0	14 040.7	100.0	10 796.7	100.0

Source: Lloyd's Register of Shipping.

<sup>1</sup> AWES: Association of West European Shipbuilders. Members outside the Community are shipbuilders' associations in Finland, Sweden, Norway, Spain and Portugal.

<sup>2</sup> Information incomplete.

A comparison between the situation of the shipbuilding industry of the Community and that of Japan, the leading shipbuilding country in the world, shows that the share of the new order intake in the Community tends to be lower than the share of deliveries, whereas the Japanese share of new orders is higher than the market share of its deliveries. Other shipbuilding regions were able to obtain a 28.6 % share of all new orders placed in the world in 1978. This structural development, mainly due to the setting-up of modern shipbuilding facilities in developing countries, narrows further the scope for the traditional shipbuilding areas, and this process is continuing.

In this respect there are also some qualitative

aspects to be considered. The fact that the Community shipbuilding industry was able more or less to maintain its relative market share cannot be regarded as a success but, on the contrary, illustrates the dwindling competitiveness of the industry. As the European shipyards have a traditionally higher share of the market for special ships and for more sophisticated types, sectors in which the general decrease is not as significant as for oil tankers and bulk carriers, the Community industry should have been able to increase its relative market position. The following analysis for ships other than oil tankers and bulk carriers shows the development in this specific sector (calculated on the basis of grt).

Table 4

	EC	Rest AWES	Japan	Other regions	World total
<b>Completions<sup>1</sup></b>					
1977 '000 grt	2 344.6	815.0	3 161.4	1 944.8	8 265.8
%	28.4	9.9	38.2	23.5	100.0
1978 '000 grt	2 151.4	848.4	2 790.3	2 371.4	8 161.5
%	26.4	10.4	34.2	29.1	100.0
<b>New order intake</b>					
1977 '000 grt	1 341.6	1 021.6	3 025.4	1 586.7	6 975.3
%	19.2	14.6	43.4	22.7	100.0
1978 '000 grt	1 163.4	453.0	2 088.5	1 652.4	5 357.3
%	21.7	8.5	39.0	30.8	100.0

Source: Lloyd's Register of Shipping.

<sup>1</sup> Excluding bulk carriers and oil tankers.

### Order book and workload situation

2.3 As a result of the shipbuilding crisis the order books of the world's shipbuilding industry have further decreased since the end of 1977. The total order book at the end of March 1979 was 22.6 million cgrt, of which some 40 % falls to shipbuilding regions outside Western Europe and Japan, compared with their present production share of 25-30 %. The following table shows the order book situation in the principal shipbuilding regions:

Table 5 — Total order book at 31 March 1979

Country/Region	in '000 cgrt	%
European Community	4 780.7	21.1
Rest of AWES	3 918.3	17.3
(Western Europe)	(8 698.9)	(38.5)
Japan	4 978.3	22.0
Eastern bloc <sup>1</sup>	2 513.5	11.1
Other regions	6 430.6	28.4
Total	22 621.3	100.0

Source: Lloyd's Register of Shipping.

<sup>1</sup> Incomplete.

The Japanese share of order books is traditionally lower than that of other shipbuilding regions, mainly because of shorter building times in Japan.

As far as the shipyards in the Community are concerned the industry has pointed out that more than 40 % of this order book is already worked off, thus reducing the average workload of the industry to less than one year's production. In this context it may be further noted that the order book situation differs widely from yard to yard; thus certain shipyards are already being confronted with acute employment problems.

These are only tentative calculations, and it is to be expected that a substantial proportion of ship completions during 1979 will be carried out over 1980.

It can therefore be assumed that the tonnage completed in the Community will be in the order of 3.0 million cgrt during 1979 (together with completions during the first quarter of 1979).

In this connection, however, it should be remembered that a major part of the work on ships to be completed in 1979 was carried out in 1978 and that the industry's current workload, particularly as regards the second half year of 1979, is determined by the low level of tonnage due for delivery in 1980.

As a result of this development more and more Community shipyards are having difficulties in finding work and in maintaining an economic production potential. The situation affects more or less

Table 6 — Total order book at 31 March 1979 (Community)

	Total ('000 cgrt)	of which to be completed during		
		1979	1980	1981
Belgium	222.5	105.5	117.0	—
Denmark	485.5	275.8	144.7	65.0
FR of Germany	748.2	521.9	158.7	67.5
France	1 022.9	468.1	399.6	155.2
Ireland	6.0	3.0	3.0	—
Italy	750.7	437.6	272.0	41.1
Netherlands	522.4	384.2	123.3	14.9
United Kingdom	1 022.6	717.8	286.6	18.1
<b>Total Community</b>	<b>4 780.7</b>	<b>2 914.0</b>	<b>1 505.0</b>	<b>361.7</b>

Source: Lloyd's Register of Shipping.

all shipyards, even the most competitive ones. Another adverse effect of the exhaustion of orders is that a continuous production flow cannot be maintained, with all its consequences where costs are concerned.

### Employment

2.4 Shipyards are constantly reducing their workforce. The following table shows the trend in the Member States:

Table 7 — Employment in shipbuilding in the Community (newbuilding activities only)

	1975	1978	1979
Belgium	6 138	5 140	5 120 March 1979
Denmark	16 630	12 000	11 100 March 1979
FR of Germany <sup>1</sup>	46 800	32 400	26 800 planned
France <sup>2</sup>	27 628	22 010	21 850 1st qr 1979
Ireland	869	840	800 estimated
Italy	25 000	20 000	19 800 est. March 1979
Netherlands	28 739	22 400	21 800 estimated
United Kingdom <sup>1</sup>	54 550	41 050	37 950—31 000 est.
<b>Total</b>	<b>206 354</b>	<b>155 840</b>	<b>(145 220—138 270)</b>

Table compiled from various sources.

<sup>1</sup> Excluding naval shipbuilding.

<sup>2</sup> Employment of shipyards with a workforce of more than 150.

In addition, there are some other measures which shipyards have introduced, such as cutting out overtime, short-time working and reduced working hours. However, these measures have been taken to obviate actual difficulties; they are, generally speaking, not part of a long-term strategy aimed at adapting the firm in line with market requirements. In this connection it should be noted that only a few firms have been able to switch their newbuilding workforce to other activities. Where statistics

of employment in newbuilding show a reduction of 50 500 between 1975 and 1978, statistics of total employment in shipbuilding show a similar reduction; it follows that only few workers obtained jobs in other sectors of shipyards.

In the light of the present overall situation of the shipbuilding industry, a further reduction in employment in newbuilding must be expected, and this will have serious social consequences. It can be

estimated that more than 50 000 jobs of men directly employed in the shipyards are at risk if the present order intake remains at its present low level.

On this subject some shipyards have stated that they nevertheless have difficulties in securing skilled workers and that this situation has caused problems as regards carrying out production schedules on time. Because of the long-term production process and the variety of production sectors in a shipyards, it may also happen that some departments are working overtime while others have no work at all.

### Developments in shipping

2.5 The crisis in the shipbuilding industry is closely connected with the shipping crisis which started in 1974 after the developments in the oil sector and is persisting.

The imbalance on the shipping market is mainly the result of the new ordering boom some years ago, when it was widely anticipated that the growth of world seaborne trade, some 12 % per year in ton-miles from 1968 to 1971, would continue during the decade. In 1973, for instance, 73.6 million grt, mainly oil tankers, were ordered. This enormous order boom in the late 1960s and during the first years of the present decade has led to a rapid increase in shipbuilding capacities in the world, mainly in Japan, resulting in overcapacity in the shipbuilding sector, which now affects all shipbuilding regions in the same way and which is aggravated by a low level of new orders as a result of the overcapacity in shipping.

The new order boom of those years led in particular to an increase in the tanker fleet by about 50 % between 1973 and 1978, whereas oil transport, measured in ton-miles, increased by only 9 % over the same period. Table 8 reflects these developments.

Table 8 — *World seaborne trade and cargo-carrying fleet*

	'000 million ton-miles	%	Fleet <sup>1</sup>	
			million dwt	%
	<i>Seaborne trade in oil and oil products</i>			
1973	10 216	100	234.3	100
1975	9 727	95	313.0	134
1977	11 459	112	356.1	152
1978 <sup>2</sup>	11 135	109	351.8	150
	<i>Seaborne trade of other cargoes</i>			
1973	5 187	100	205.6	100
1975	5 636	109	230.7	112
1977	6 020	116	268.5	131
1978 <sup>2</sup>	6 120	118	281.0	137

Source: Fearnley & Egers, Oslo.

<sup>1</sup> At end of year.

<sup>2</sup> Provisional.

Total overcapacity in shipping was estimated at the end of 1978 to be around 100 million dwt — or some 15 % of the total cargo-carrying tonnage — of which 80 million dwt was due to overtonnage in the tanker fleet. These calculations by shipbrokers did not take into account certain factors which reduce the effect of this surplus capacity on the market, such as the influence of 'slow steaming'. This prac-

tice immobilizes a considerable amount of tonnage and will probably continue. However, cargo-carrying capacity is basically in excess of normal market requirements.

In this difficult situation Community shipowners, who are the traditional customers of the European shipyards, have faced severe competition from a

variety of sources, and the Community fleet is currently declining in both relative and absolute terms, as Table 9 shows.

Table 9

Date	World	Community	
	'000 grt	'000 grt	% of world tonnage

*All merchant ships*

1.7.1960	129 769.5	43 620.5	33.6
1.7.1970	227 490.0	57 369.4	25.2
1.7.1975	342 162.4	74 283.3	21.7
1.7.1977	393 678.4	76 392.6	19.4
1.7.1978	406 002.0	76 930.1	18.9

*Commercial trading types only*

1.7.1978	379 549.9	72 411.4	19.1
11.4.1979 <sup>1</sup>	383 001.1	68 231.4 <sup>1</sup>	17.8

Source: Lloyd's Register of Shipping.

<sup>1</sup> Excluding Netherlands Antilles (1.6 million grt).

developments will be only of a temporary nature: freight rates may again decrease. Furthermore, a substantial increase in world seaborne trade as a result of an economic recovery in major industrial nations cannot be expected as the developments in the oil sector will probably affect economic growth. Reduction of fleet productivity as a result of slow steaming is an uncertain factor. Its impact on future tonnage requirements is difficult to estimate, as the service speed could be increased if freight rates were sufficient to justify such an increase from an economic standpoint.

It emerges that in the tanker sector substantial tonnage requirements were generated by the present oil crisis, leading to an increasing demand, e.g. transport capacity to carry spot quantities, for part-loadings of bigger units and for oil storage.

In this context special considerations regarding the tanker sector have led to a number of orders for the building of 80 000-dwt tankers. It should be noted that not a single ship of this type has so far been ordered from a shipyard in the Community.

During recent months some signs of a recovery on the shipping market have been reported, especially for certain sectors. It may be noted that laid-up tonnage has been reduced substantially over the same period. Table 10 illustrates this development.

Table 10 — *Tonnage laid-up (merchant ships of 300 grt and over)*

	Number	'000 grt	'000 dwt
1978			
January	678	23 660	43 675
April	752	27 506	50 887
July	765	29 651	55 289
October	737	25 486	47 507
1979			
January	595	16 678	30 290
April	526	15 048	27 395

Source: Institut für Seeverkehrswirtschaft, Bremen.

Taking into account the general aspects — namely the merely marginal increase in world seaborne trade together with the existing overcapacity — it is to be feared that in many market sectors these

## Market forecasts

3. During the past year various market forecasts have been published. Although these studies differ in their basic assumptions and consequently in their results, they all agree on the point that the shipping crisis will last well into the 1980s and that demand for new tonnage may decrease even further in the forthcoming years.

According to a study prepared by the market forecasting group of the Association of West European Shipbuilders in 1978, a substantial market upswing cannot be expected before 1982/83. This market recovery will be based mainly on replacement requirements, as most of the tonnage built in the 1960s will become obsolete from that time on. It is expected that after 1985 the combined effect of tonnage requirements for replacements and for fleet expansion as a result of growing seaborne trade could lead to a high level of new orders again.

Table 11 shows the principal results of these market forecasts.

Table 11

Type of vessel	Contracting requirements 1978-85	
	million grt	million (grt)
Oil tankers >10 000 dwt	20.0	(9.3)
<10 000 dwt	1.4	(3.4)
Bulk carriers	13.0	(6.0)
General cargo ships	29.2	(34.7)
Gas carriers	7.5	(5.2)
Miscellaneous	9.9	(27.1)
Total	81.0	(85.7)
Annual average (Jan. 1978 to mid- 1984 = 6.5 years)	12.5	(13.2)

It can also be deduced from this study that estimated world shipbuilding production in 1985 (some 18.0 million grt) will remain below the level of 1975-77.

However, the study does not take into account uncertain factors resulting from present developments in the oil sector.

Two further aspects are to be considered in this context: all market forecasts are based on certain assumptions, one key assumption being that the necessary adaptations to the market situation will be made, both in shipping and in shipbuilding.

Consequently, the outlook for a market recovery in the late 1980s should in no way serve as an excuse for failing to undertake necessary adaptations of capacities.

The second aspect is that a stagnation in the shipping market leads not only to a contraction of the amount of orders for fleet expansion projects, but also to the withholding of replacement orders which would have been placed if shipowners had had a more optimistic view of future developments. Furthermore, cut-throat competition narrows the scope for innovations, as higher-priced new building would have to compete with old ships operated at low costs and to low social and technical standards.

In view of all these developments, there is likely to continue to be very little scope for new building orders, and it will be difficult for shipbuilders world-wide, and more particularly for Community shipbuilding, to obtain enough orders on the market to keep even the viable yards running.



## Structural developments

4. Against the background of the existing over-capacity in shipbuilding and on the assumption that the crisis will probably continue over the coming years, intensified restructuring efforts are necessary in order to maintain or to re-establish within the Community a healthy and competitive shipbuilding industry.

It can be argued that ship production and employment have already been reduced in the Community by closing down production units and diversification, but mainly through elimination of temporary labour, abolition of overtime and natural wastage. However, it should be pointed out that such measures can only reduce production by underutilization of equipment and building facilities, which widens the gap between actual cost and market prices. It therefore seems inevitable that more facilities will have to be either converted to other activities outside shipbuilding or else closed down.

This adaptation is first and foremost the responsibility of the industry itself. However, the reserves of many shipbuilding firms are coming to an end as market prices have for some time – since 1975 – been below European costs. Taking this into account, various Member States have introduced shipyard support schemes in order to permit smooth adaptation of shipbuilding facilities.

The Belgian Government is considering whether aid may be given to its only two medium-sized yards engaged in building ocean-going ships in order to maintain its industries at a minimum viable level. No decision has been taken so far.

The Danish Government has no plans concerning the restructuring of the shipbuilding industry. The Government recognizes that a considerable reduction of capacity is unavoidable; the actual extent should, however, be decided upon by the industry itself. Employment in newbuilding has been reduced from 16 630 in 1975 to 12 000 in 1978.

France, which has reduced the number of shipyards building ocean-going ships during the last decade, will continue with its restructuring efforts. In May 1979 a new programme was submitted to the Com-

mission and is currently being examined. Under this programme, production aids are envisaged for new orders up to a maximum of 435 000 cgrt in 1979 and 420 000 cgrt in 1980. This ceiling corresponds to 76 % of the average production for 1974-75. These aids, however, will be strictly related to the restructuring policy, aiming at stabilizing the industry's situation on a substantially reduced but viable level of activity.

The German aid scheme was presented to the Commission in January 1979 and approved by the Commission in June 1979. The Federal Government has approved the objective of the shipbuilding industry's report on structural developments for the shipyards building ocean-going ships. According to this report, an employment reduction is envisaged for the building of new merchant ships (from 32 391 in 1978 to 26 851 in 1979 and 23 507 in 1980; employment in 1975: 46 839).

The Irish Government has announced its intention to help the only shipyard capable of building deep-sea vessels to maintain a minimum viable size. A programme for subsidies on orders has been submitted and approved by the Commission; the programme also provides for aids for diversification purposes.

The initial Italian aid programme for subsidies on orders covers a period ending September 1978. The Italian Parliament has still to decide upon a new restructuring plan for the shipbuilding industry presented by the Government, leading to a reduction of 25 % of the 1975 capacity. Employment in newbuilding has meanwhile been reduced from 25 000 in 1975 to 20 000 in 1978, and the objective is a further reduction of 3 000.

The restructuring plans of the Dutch Government envisage the closing down of a number of production units. Support has been given for the concentration of newbuilding production, for the regrouping of shipyards and for converting capacities to activities outside shipbuilding. Employment in newbuilding has been reduced from some 29 000 in 1975 to about 22 000 in 1978. Further measures which may eventually lead to a capacity reduction of 50 % of the industry's initial capacity as compared with pre-crisis years are under consideration, and the Dutch Government has notified the Com-

mission that the largest newbuilding shipyard, near Rotterdam, will stop its activities as a newbuilding shipyard.

The United Kingdom Government has decided to approve option 2 of the Corporate Plan which was submitted by British Shipbuilders at the end of 1978. The approval of option 2 implies that the production capacity of British Shipbuilders will be reduced to 430 000 egt per year in 1980/81. Total employment in newbuilding of merchant ships (including independent shipyards) has been reduced from 54 550 in 1975 to 41 050 in 1978 and some 37 950-31 000 in 1979.

It may be noted, however, that, generally speaking, restructuring policies lag behind market developments. In addition to shipbuilding aids provided under the Fourth Directive, various special aid programmes have been introduced to promote the new order intake. These aids are special aids for national shipowners, extended credit facilities for orders from developing countries and the taking-over of shipyard's losses in some Member States. Furthermore, even special financial support has been made available for some orders. Despite all these support measures, numerous shipyards are already being confronted with acute employment problems.

The situation outside the Community is similar. Japan has introduced certain production ceilings for its shipbuilding industry for 1979 and 1980. In compliance with these production ceilings, the maximum operating ratios of the principal shipyards will vary between 34 and 49 % (according to the group of shipyards) as compared with their peak production level. As a long-term measure, shipbuilding capacity will be reduced by 35 %, with the aim of decreasing total newbuilding capacity by 3.4 million egt. In addition, public financial support is available for the scrapping, freezing or transfer of excess shipbuilding facilities (applicable to building docks and berths with a capacity of more than 5 000 grt). Under this programme shipbuilders can sell building facilities to an organization established by the Japanese Government.

It may be noted that shipyards which had gone bankrupt were not finally closed down but, on the contrary, started up again with shipbuilding activi-

ties when the company was restored under the Japanese rehabilitation law.

As a measure on the demand side, Japan has introduced financial support for the building of ships for Japanese owners. In addition, financial support has been made available for the scrapping of ships in Japanese shipyards.

Although in some cases restructuring efforts have not proved quite sufficient, and it may be feared that capacities will be revived when the demand for newly-built tonnage rises again, these measures constitute a step in the right direction. Against this background it must be reported that countries such as Korea, Brazil, Taiwan and the Eastern bloc countries, and in particular Poland, are still expanding shipbuilding capacity.

Some countries, and especially Poland, were able to gain orders at price levels well below the cost applied by its Far Eastern competitors. The result is that countries outside Western Europe and Japan now have a market share of 40 %, calculated on the basis of their order books.

The Commission is aware that restructuring is a long and difficult process and to be carried out as a long-term measure. An essential prerequisite for the survival of a minimum shipbuilding capacity in the Community is a certain basic level of newbuilding orders; otherwise shipyards will have to close. In most cases this can only be achieved with the provision of aids by Member States. However, the danger exists that such aids will drive back market forces and that the economic selection of the most competitive yard will become a matter of only secondary importance. Furthermore, a situation should be avoided where ships for which there is no commercial demand are built on the basis of an uneconomic accelerated aid level, such as building ships for stock.

On the other hand, there should be no doubt, and this is expressed in the Council Resolution of 19 September 1978, that the shipbuilding industry is of strategic importance for the Community and that a healthy and competitive shipbuilding industry whose scale of activity is consistent with the size of the Community's maritime trade should be maintained. However, this cannot mean employ-

ment guarantees for every single firm, but it does mean that attention will be given to improving the sector's position and that some framework of national measures, which have to comply with the principles of the common market, may be introduced in order to give the viable part of the shipbuilding industry a chance of survival.

## **Outlook and action to be considered**

5. It is obvious that in most Member States this long-term strategy for the sector is to be accompanied by additional short-term and medium-term measures, mainly on the demand side and in the social and regional field. These measures are to be taken first and foremost by the Member States within the limits of their existing economic potential and in compliance with the principles of the common market.

The Commission will continue to monitor these activities. As far as social aspects are concerned, the Commission has discussed these with the two sides of industry.

In this context it may be noted that the social and regional implications of the shipbuilding crisis are of the utmost importance. If the situation of the sector cannot be stabilized to a certain extent, there is a real danger that the problems involved will not be solved without serious social unrest.

In 1978 an amount of 20 million ECU was made available under Article 375 of the budget for measures in support of crisis sectors. This amount has been transferred to the 1979 budget, but so far the Community has not been able to avail itself of this amount, pending the Council's decision concerning adoption of the regulations proposed by the Commission.

The present situation of the industry can be summarized as follows:

- Since the Commission submitted its Communication to the Council in December 1977 regarding the reorganization of the sector, the situation has worsened to a greater extent than was expected at that time.
- Employment for an important part of the present workforce is at risk unless a certain minimum new order intake by Community shipyards can be maintained.
- The economic situation of shipyards has worsened, newbuilding prices are still being depressed and shipyards' reserves are running out.

– The danger exists that important parts of the industry may run down abruptly.

– Restructuring is a long process, and a minimum workload is necessary for smooth adaptation of capacity.

In the light of results in relation to the various market forecasts already published, however, it must be considered that only very limited prospects exist for a recovery of the shipbuilding market in the short term. The development of the order books in Member States has shown that in the past single short-term projects were insufficient to generate the necessary new order intake for the shipyards in spite of the high subsidies provided from public sources.

Considering all these aspects, the Commission intends to continue and intensify its relations with Member States as well as its informal contacts with the circles involved (shipbuilders, shipowners, unions) in order to identify suitable measures that could be taken in the particularly difficult situation with which the sector is confronted.

The Commission has already examined ways and means of improving the demand situation and a communication regarding a proposal for a scrap-and-build programme will be submitted to the Council. This programme would also have favourable social implications for the sectors involved.

**Communication from the Commission to the Council  
on a scheme to promote the  
scrapping and Building of ocean-going ships**

## Introduction

1.1 In its Communication to the Council of 9 December 1977 on the reorganization of the Community shipbuilding industry,<sup>1</sup> the Commission stressed the need for urgent action to be taken to support the reorganization of the sector.

In its Resolution of 19 September 1978,<sup>2</sup> the Council recognized the need to make qualitative and quantitative adjustments to the sector. It therefore requested the authorities of the Member States and the Community to support the restructuring efforts undertaken by the industry and to alleviate, in particular, the social consequences of the crisis. In addition, it requested the Commission to investigate measures which could help to increase orders for new ships at Community shipyards.

This Communication concentrates on the latter aspects of the Resolution. Although the proposals contained in this document would have positive social implications for the sector, this Communication does not concern itself with specific social measures.

The Commission intends to propose, in good time, supplementary social measures for the sector. These will be developed in close collaboration with all interested circles. The Commission will take pains to ensure that these measures are consistent with those others aimed at facilitating the restructuring of the sector.

1.2 The crisis afflicting the shipbuilding industry appears to be even more serious than indicated in the abovementioned Communication from the Commission to the Council, the new energy crisis having darkened the prospect still further.

This applies in particular to the Community industry: it is to be feared that the extremely low level of new orders which the Community shipbuilding industry has won since 1975, and which is tending to drop still further, will in the years ahead bring down production to a level even lower than that predicted for the beginning of the 1980s. Such a steep decline in activity will gravely hamper the efforts the Community industry has been making to achieve gradual, orderly adjust-

ment. This turn for the worse makes such restructuring even more imperative — and much harder.

The reorganization of the sector is a difficult, long-term process which cannot be successfully carried through unless there is a minimum level of orders.

Given that the problem of the whole shipbuilding industry in all the Member States is affected, the Commission feels that it has a duty to take the initiative in proposing a scheme to restimulate demand in this sector over the coming years in which the crisis will be most severe.

The Commission considers that any scheme should satisfy two criteria:

- reorganization of the sector is indispensable in order to maintain a healthy and competitive industry whose scale of activity is consistent with the Community's basic interests; a scheme designed to raise the level of demand should facilitate, as a temporary measure, the reorganization while preventing the collapse of the sector;

- in view of the seriousness of the crisis the action should have a real impact, in as short a time as possible, on the level of demand.

In the light of what has been said above, and after examination of various possibilities, it appears that a scheme providing financial assistance to encourage the placing of additional orders, combined with the scrapping of ships which would not otherwise be broken up yet, is the most suitable (a scrap-and-build scheme).

It resembles the scheme in progress for the steel industry in that they are both crisis schemes designed to make the reorganization more tolerable from the political, regional and social viewpoints. For the steel crisis plan, however, the Community was able, under the ECSC Treaty, to use instruments which by their nature have a much greater impact on the market than those available for the implementation of the scrap-and-build scheme. Although the Commission is unable to make use of instruments of comparable efficacy, it nevertheless

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<sup>1</sup> Supplement 7/77 — Bull. EC.

<sup>2</sup> OJ C 229 of 27. 9. 1978; Bull. EC 7/8-1978, point 2.1.20.

considers that the scheme must be tried. There is a real need for action, even with more modest objectives.

In any case, scrap-and-build will have not only a salutary effect on the Community shipbuilding industry, but also a modest but real impact on the absorption of the fleet overcapacities. It should be noted that as far as shipyards are concerned, the impact will be felt largely on the construction side since scrapping is not very profitable in the Community. This impact could be optimized if non-member countries were also to take steps to reduce their overcapacities, especially by adopting the same scrap-and-build scheme. How can those countries be encouraged and negotiations opened with them if the Community does not first decide on its own course of action?

This is a specific, anticyclical measure with considerable social impact; it is not, however, a direct restructuring project, although it will exercise a beneficial effect by improving the conditions, which otherwise may well become intolerable, in which such restructuring can take place.

1.3 This Communication provides the necessary details to enable the Council to discuss the principle and features of a scrap-and-build scheme.

The Commission hopes that from this discussion will emerge a policy on the choice of solutions for implementing such a scheme.

In the light of this first discussion, the Commission will then submit a formal proposal.

## Grounds for considering a Community scheme

2.1 Aid schemes implemented by the Member States to help their shipyards or their shipowners have only in a limited number of cases led to sufficient structural adaptation of the yards. On the other hand, they have made it possible to progressively cut down production in the sector without causing too great social stresses. The trend in the level of orders won by the Community industry shows, however, that these measures are not generally sufficient to cope with the crisis.

In addition, as the first half-yearly report on the state of the Community shipbuilding industry indicates,<sup>1</sup> the state of the shipping market will in the years ahead probably remain characterized by overcapacity and instability.

Admittedly, the total overcapacity of the fleets, which was still estimated at 100 million dwt<sup>2</sup> at the end of 1978, has fallen, in part more or less permanently (one reason being the practice of reduced speed); nevertheless, the basic worldwide excess tonnage remains.

In addition, the energy crisis and its probable consequences – in particular increased inflation and reduced growth rates – will affect the development of world trade and therefore of shipping; hence the crisis on the shipping market is likely to worsen and to last for several years longer.

The present improvement in freight rates and second-hand market prices is probably a temporary and sectoral development; moreover, a considerable proportion of the present improvement in freight rates merely represents a compensation for the increase in bunker fuel prices.

Hence it is unlikely that there will be a fundamental overall recovery of the shipping market during the next few years. Consequently, the overall volume of orders for new ships will remain very low, even tending to drop further, and it is probable, for example, that orders, more especially for large

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<sup>1</sup> Published as the first part of this Supplement.

<sup>2</sup> See the annexed data sheet.

crude oil tankers, will basically be limited to re-placements.

2.2 This gloomy prospect for the shipbuilding industry is especially confirmed for the Community because of the unfavourable state of Community shipping. The Member States' merchant fleets are at the moment having to deal with a host of problems and the Community's share of the world fleet is continuing to drop, having fallen from 33.6 % in 1960 to approximately 18 % in 1979, i.e. well below the part in world seaborne transport generated by the Community. During the nine-month period from 1 July 1978 to 1 April 1979, the Community fleet has even undergone a considerable reduction in absolute value of 2.4 million grt, i.e. more than 3 % of its trading fleet of 72.4 million grt.

This trend is liable to result in the Community shipowners' share of world demand declining still further. Orders from Community shipowners already account for more than 75 % of the total volume of orders placed with the Community industry.

2.3 As pointed out in the first half-yearly report on the situation of the shipbuilding industry in the Community, the consequences of the shipbuilding crisis are steadily becoming more acutely felt at both production and employment levels. The industry is faced with a constantly diminishing number of orders on its books due to the fact that the level of new orders remains considerably below the production level, despite the significant drop in production that has occurred since 1976.

New orders placed in the Community amounted to 2 million cgrt in 1978, while production in that year reached 3.53 million cgrt. The orders on the books, which traditionally represent at least two years of work, stood at 4.78 million cgrt at the end of March 1979, equivalent to a workload plan of less than one year's production at the 1978 rate, since over 40 % of the work had already been completed by that date.

The level of orders booked by the Community industry shows a downward trend, in line with the contracting pattern of the Community fleet. The fear exists in certain circles that orders could be-

come stabilized at a level appreciably below 2 million cgrt per year for several years, which would tend to bring production down to a level of the order of 2 million cgrt or less per year during that period, corresponding to less than 50 % of the production level in 1975 and 1976. There is thus a risk that several of the best shipyards will not find further work and may be unable to continue operating if they cannot receive additional opportunities.

2.4 Remaining inactive under these circumstances will result in a situation where the indispensable rationalization of the industry, which has already fallen seriously behind, is replaced by a straightforward reduction of capacity, without the necessary structural changes, to an extent incompatible with the essential interests of the Community. In this context, one must also bear in mind the serious consequences that such a development could have for the related industries upstream.

On the other hand, the situation would also deteriorate if the Member States reacted individually by applying emergency measures that would distort competition and complicate the problems of our shipowners.



## Type of action to be considered

3.1 The drop in production and the continuation of the crisis for longer than was anticipated in 1977 is increasing the severity of the employment problem. In order to be effective, any action adopted must produce immediate results.

Apart from the decrease in orders for the expansion of existing fleets, we find that replacement orders are being deferred. The proposed scheme is particularly aimed at speeding up such ordering. A flood of orders placed when the market recovers would be almost as harmful as the current scarcity of orders.

Any action to reactivate demand must avoid increasing the excess capacity of the fleets or affecting the competitive position of the Community shipowners.

Several approaches have been examined in consultation with the bodies concerned. It has become evident that the measure which best meets the requirements set out above would be a scheme that affects both the demand and the excess merchant fleet capacity. A scheme which solely encouraged the shipowners to place new orders would aggravate the problems of the shipping market; one which solely favoured the scrapping of old ships would not only have a very limited scope (since it would affect only ships flying the flags of the Member States), but would in no way guarantee the placing of additional orders with the Community industry.

An action which combined the reactivation of demand with encouragement to scrap old vessels could have the desired effects, provided that it were sufficiently extensive.

3.2.1 The essence of the scrap-and-build scheme proposed by the Commission is that financial support will be granted for an order to build ocean-going ships, placed with a Community shipyard by a shipowner established on Community territory,<sup>1</sup> provided that as part of the same operation the said owner also sends ships to be scrapped representing

twice the tonnage to be built, calculated in compensated gross register tons.

3.2.2 Since the level of demand is currently of the order of 2 million cgt per year, with a risk of a further downwards trend, the Commission considers that an objective intended to increase orders by around 1 million cgt per year for a period of three years ought to enable production to be maintained at a level of between 2.5 and 3 million cgt per year.<sup>2</sup>

This would involve scrapping at the rate of 2 million cgt per year over the same period, for, in order to have a certain impact on the absorption of fleet overcapacities, the tonnage to be scrapped would have to be appreciably greater than the additional tonnage to be built (especially bearing in mind the greater productivity of certain types of new ship), although it should not exceed a level that would discourage the shipowners.

In consequence, the Commission recommends a target of 1 million cgt to be built and 2 million cgt to be scrapped per year, over a period of three years. This question is examined in more detail at points 3.3 and 3.4 since it is advisable to establish whether the target is financially bearable and technically feasible.

3.2.3 In order to benefit from the arrangements provided, the ships to be scrapped will have to meet certain very specific eligibility criteria, particularly with a view to excluding as far as possible ships that would at all events be scrapped during the period scheduled for the scheme. Shipowners would have to undergo inspection procedures to ensure that such criteria are complied with and that the operations are genuine.

Should only those ships be taken into account which have flown the flag of one of the Member States for a certain period before being scrapped, or should ships that do not meet this requirement be included?<sup>3</sup>

<sup>1</sup> It should be considered whether, and how, certain major conversions of vessels could in this context be rated as newbuilding.

<sup>2</sup> It should be noted that the EEC Shipbuilders' Liaison Committee considers that, even supposing that the new orders placed with Community shipyards, under the present conditions, were at the same level as in 1978 (2 million cgt), Community production might be somewhat below this level over a period of three years.

The fleets under the flags of the Member States are in general of quite recent construction, so that not enough tonnage for scrapping is available in these fleets to enable the target of 2 million cgrt per year to be attained. The Commission thus considers that the shipowner should be allowed to put forward for scrapping, in the context of a scrap-and-build operation, ocean-going ships at least one of which has been registered in one of the Member States for not less than twelve months prior to the scrapping contract.

3.2.4 A similar problem arises in respect of the ships built in the context of a scrap-and-build operation; that is to say, provision must be made for their obligatory registration in one of the Member States for a certain period. The Commission feels that it would be out of the question for such a ship, on the day following its delivery, to be transferred to the register of a non-member country to compete subsequently against the Community fleets. In consequence, the Commission suggests that transfer of the registration to a non-Community country within a period of six years after delivery should, as a rule, impose on the shipowner the obligation to repay at least part of the subsidy he received.

3.3.1 The Commission suggests that the financial support should consist of (a) a variable part to offset the difference between the second-hand price and the scrapping price of a ship and (b) a fixed component to encourage the shipowner to invest. According to present estimates, the variable part, calculated at a flat rate on the basis of the type, size and age of the vessel, should range from 10 to 75 EUA per lightweight tonne,<sup>1</sup> representing an estimated average of 32.5 EUA per cgrt of scrapped tonnage, and the fixed part for encouraging construction should be 80 EUA per cgrt. With a quantitative objective of 1 million cgrt to be built and 2 million cgrt to be scrapped per year over a period of three years, the average annual cost of the scheme would be 145 million EUA, giving a total cost of the scheme for three years of 435 million EUA. The annual payments would, however, not necessarily average 145 million EUA, as the payments could be spread over a longer period exceeding three years. It should be noted that the sum of 145 million EUA represents 15-20 % of the government aid currently granted for

shipbuilding and shipping throughout the Community.

3.3.2 And here the question arises whether aid for the scrap-and-build scheme should be additional to national aid measures already being applied. The Commission would mention in this regard that the current measures taken by the Member States have generally not sufficed to prevent the decline of new orders to their present level and will be even less suitable for coping with a situation that is persisting and will probably grow worse. Furthermore, the aids to shipyards are primarily designed as measures to offset the differences in production costs between non-Community and Community shipbuilders, not to promote the placing of additional orders. The Commission is thus of the opinion that the scheme can only succeed if it is added to the national intervention measures.

3.4.1 The Commission expects that this system will be able to:

- assist in providing the shipbuilding industry with a basic workload;
- obviate adding to the excess capacity of the fleet, by tying new construction to scrapping;
- help to reduce excess tonnage at world level;
- help the shipowners to modernize their fleet and hence remain competitive;
- assist in combating marine pollution and in furthering the safety of ships.

The Commission also hopes that this scheme – primarily intended to generate additional demand from Community shipowners – will lead to a reduction in aids aimed at encouraging orders from owners in non-member countries who are in fierce competition with Community fleets.

3.4.2 It should be pointed out that the execution of the planned programme will have a positive impact on employment in the sector. In the Community direct employment in merchant shipbuilding yards dropped from 206 354 in 1974 to

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<sup>1</sup> See the annexed data sheet.

155 840 in 1978, a loss of around 25 %. In 1979 an additional decrease is expected of between 10 000 and 17 000 jobs, and according to present market indications 50 000 more jobs could be lost over the next few years. Overall, the workforce in Community shipyards is therefore in danger of being reduced by over 50 % compared to 1975, particularly in those regions where there are already high levels of unemployment.

If the scheme's target were attained it would help to maintain employment for about 35 000 persons working in the shipyards, but also for a comparable number of people in related and upstream industries.

3.4.3 The scrap-and-build scheme is one of the measures to be taken in the context of more general action in the shipbuilding and shipping industries, for which guidelines were laid down in the Communication to the Council of 9 December 1977.<sup>1</sup> Designed as a temporary measure, its aim is not to have a direct influence on restructuring but rather to allow such reorganization to take place smoothly. The scheme, because it constitutes a contingency measure, differs from those existing financial instruments, intended to have a structural impact, such as the funds for industrial restructuring and reconversion (Article 375 of the budget), although it does, in a specific way and for a specific area, complement such financial measures. Proposals for a regulation on the use of these appropriations, now being discussed in the Council, would allow financial contributions not only for reorganization of Community shipyards but also for the redevelopment of regions affected by such reorganization.

At the Community level, the aim of the scrap-and-build scheme is, therefore, to assist in the reorganization of the sector; but measures will only be effective if combined with national aid measures. And, according to the Fourth Directive, national measures of aid are authorized only in so far as the shipyards are engaged in activities designed to restore competitiveness.

3.4.4 As with any aid scheme, it is impossible to guarantee unconditionally that the objective of the scrap-and-build scheme will be achieved. The success of the schemes will depend on both the devel-

opment of the market and the attitude of the shipowners. The system can operate only on a depressed shipping market, where freight rates are not profitable and the gap between second-hand market prices and scrapping prices is small and remains within limited margins. If the health of the market were restored, and consequently the gap between second-hand prices and scrapping prices widened beyond the set limits, the scheme would automatically shut off: the market forces alone would be sufficient to attain the objective pursued. In any event, the scheme requires flexible management, which means that it must be possible to suspend application of the scheme if it becomes clear that the effects are no longer compatible with the objectives pursued. This would notably be the case if very few additional orders were placed.

The remaining uncertainties cannot be put forward as justification for doing nothing: a Community approach to the current situation is a minimum requirement.

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<sup>1</sup> Supplement 7/77 — Bull. EC.

## Procedure for implementing the scheme

### Execution of the scheme

4.2.1 If it is decided that the scheme should be wholly financed by the Community, the decisions on all expenditure required should be made by the Commission. In this event the Commission will be assisted by a Consultative Committee made up of the representatives of the Member States.

4.1 The main issue to be decided, as far as the implementing procedures are concerned, is whether the scheme requires Community financing and management or whether a harmonized national approach to these aspects is more advisable.

The Member States would participate in this system in the preparatory phase, especially by examining and selecting the applications for the benefit of the scheme and examining them in accordance with the rules established at Community level, but also in surveying the correct execution of each scrap-and-build operation financed under the scheme.

A harmonized national approach gives each Member State the opportunity of using the proposed method, but does not ensure that all the Member States will do so.

This system of management will not upset the traditional distribution of orders within the Community, because the Community scheme merely provides support that complements national aid granted outside this scheme, and it is the latter which forms the most decisive factor in the distribution of orders.

If, however, a scrap-and-build scheme of the size advocated by the Commission is recognized as being necessary in order to safeguard a substantial part of the Community industry, it seems preferable to ensure participation by all Member States and consequently to finance the scheme at Community level.

4.2.2 If, however, it is decided that the scheme should be wholly financed by the Member States, the Commission would have to assess the financing in the light of the provisions of the Fourth Directive on aid to the sector and of Article 92 *et seq.* of the Treaty, and decide in which way the Member States should carry out this scheme in order to obtain a harmonized national approach.

Even if all the Member States agree to participate in the project on the basis of a nationally-financed approach aimed at achieving a common objective, such an approach presupposes its sharing among the Member States. This sharing at a national level runs the risk of failing to achieve the overall objective for the Community and hence the uncertainties of the project generally could increase.

Assuming a system of wholly national financing, a choice should be made between several possibilities as follows:

— The execution and financing of the scheme are undertaken by the Member State in which the shipowner who orders the scrap-and-build operation is established. This system has the advantage of not resulting in distortions of competition and a walling-off of markets, provided that the owner is allowed a Community-wide choice of yards.

The Commission considers that since a quantitative objective is essential all the Member States should participate in the project at Community level. Although not ruling out the concerted action formula, it feels that a Community-financed project would be preferable.

In that case, the Commission could, for example, prepare the framework within which such aid could be administered. But it would scarcely be acceptable for the Member State of the shipowner to be

If, however, the Council feels that part of the financing should be defrayed from the national budgets, consideration could be given to a system whereby the variable part of the financial support is financed by the Community and the fixed part by the Member State in which the yard is located.<sup>1</sup>

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<sup>1</sup> Point 3.3.1.

responsible for implementation and financing when it is the Member State of the shipyard to which the owner has given the order which will profit from the operation.

— The implementation and financing of the scheme are the responsibility of the Member State where the shipyard which has won the order is situated.

In that case, financial support would be granted to a shipowner situated in the Community who, as part of a scrap-and-build operation, places an order with a shipyard established in the territory of the Member State which is financing the operation. The aid could then be funded either at national level by new funds, or by existing funds for aid to shipbuilding, or by a combination of such funds.

It should be noted that this system could, in the absence of any control, easily give rise to distortions of competition. This is particularly true if the system is implemented only by certain Member States. The Member States which cannot for one reason or another take part in the scheme, or which do so at a later stage, are likely to see orders diverted to the other Member States. As in the case of direct aid to shipyards, the Commission must make sure that this new system complies with the general criteria of the Fourth Directive, particularly as regards selectivity and the ceiling for total amounts of aid.

Naturally, care must also be taken to ensure that the project remains wholly within its set horizons of a scrap-and-build scheme and is not transformed into a system of supplementary aid to shipbuilding.

— A third possibility would be for the Member State of the shipowner to take on the subsidy costs that relate to compensation for the difference between the second-hand price and the scrap price (variable part), while the Member State of the shipyard would take on the subsidy costs that relate to encouraging investment by the shipowner (fixed part).<sup>1</sup>

This system raises problems similar to those in each of the options described above. Another drawback is that it entails applying to two decision-making centres for grants of financial aid, and this is not likely to be attractive to shipowners. The attract-

iveness of the system would disappear completely if one of the Member States involved in a scrap-and-build operation were not a participant in the scheme.

It is inherent in all forms of these nationally-financed schemes that the Member States would be responsible for the entire management, including reception of applications, examination and taking the final decisions respecting the abovementioned rules.

4.2.3 If it is decided that the scheme should involve both national and Community finance with the variable part of the financial support financed by the Community and the fixed part by the Member State in which the yard is located, it will be necessary to establish Community rules for the scheme and its implementation by the Commission and the Member States, similar to those described at 4.2.1 and 4.2.2 respectively.

In the framework of these rules it should be provided:

— that the Commission decides on all expenditure of Community finance as described at 4.2.1;

— that for the part nationally-financed the Commission would have to make an assessment as described at 4.2.2.

In the realization of this mixed system of financing, the Member States will participate especially in examining and selecting the applications in accordance with the rules to be established at Community level and also in surveying the correct execution of each scrap-and-build operation financed under the scheme. Owing to the inseparable nature of the scrap-and-build elements of the scheme, the final national decision granting aid for the fixed part can only be taken if a Commission decision has been made in favour of the variable part of the same operation.

4.2.4 The legal form of the Community instruments to be adopted in order to bring into force the methods described above should be decided upon in the light of the solution chosen. However, it can

<sup>1</sup> Point 3.3.1.

be assumed that in systems involving total or partial Community finance their legal basis will be Article 235 of the EEC Treaty.

4.3 It is clear from the foregoing that the problems related to the choice of the method of financing are serious, but not insurmountable. They are sufficiently complex to justify the Commission's desire that the Council examine the alternatives put forward in this Communication before a formal proposal is made.

## Conclusions

5.1 The Commission therefore requests the Council:

1. to adopt the principle of a 'scrap-and-build' scheme to ensure a minimum level of activity for Community yards and help to reduce surplus ship-building capacity while improving the competitiveness of the Community fleet;
2. to adopt the objective of one million cgrt to be built and two million cgrt to be scrapped per year, for a three-year period;
3. to take a decision on the various practical suggestions put forward by the Commission;
4. to recognize the usefulness of initiating contacts (for example, in OECD) with non-member countries interested in the scheme.

The Commission points out that the scrap-and-build scheme recommended here is in line with the projects recommended by the Commission to tackle the whole issue of shipyards, including the social aspects and regional redevelopment programmes. In this context, it has also already proposed that both the internal reorganization of the shipyards and the creation of alternative employment in the regions in which they are situated should be stimulated by the use of suitable Community financial aids. To this end, the Commission has advocated that funds from Article 375 of the budget be made available to the shipbuilding industry.

## Data sheet

Definition of units used in the Communication:

### *Gross register ton (grt)*

The register tonnage of a ship is the volume below the main deck plus that of the tween decks and superstructures, excluding all open spaces; it is expressed in tons. The value of the ton is 100 cubic feet, or 2.83 m<sup>3</sup>.

### *Compensated gross register ton (cgrt)*

Since the normal gross register tonnage of a ship does not reflect the amount of shipbuilding work done (which also represents the degree of sophistication of the ship), the OECD has laid down coefficients for each type and size of merchant vessel ( $\text{grt} \times \text{coefficient} = \text{cgrt}$ ).

### *Deadweight tonne (dwt)*

The deadweight tonnage, calculated in tonnes, is equal to the weight of the cargo, fuel, stores, crew and passengers, if any, when the vessel is floating at its normal loadline.

### *Lightweight tonne*

The lightweight tonnage of a ship is equal to the weight of the fitted-out hull and the propulsion machinery in working order.





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To prop up demand in the shipbuilding industry, one of the hardest hit by the crisis, the Commission advocates a scheme to promote the scrapping and building of ocean-going ships, the main purpose of which is to limit the effects of any worsening of the situation.

It was prompted to recommend the scheme by the conclusions in its first report on the state of the shipbuilding industry in the Community.



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