Shipbuilding: world situation. 6th report

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PURPOSE : to present the Commission's sixth report on shipbuilding. CONTENT : this is the sixth report from the Commission to the Council concerning the world shipbuilding industry. The Communication makes the following points: Following a break down in negotiations with the South Korean authorities in 2002, regarding certain Korean shipbuilding business practices, the Commission has initiated WTO action against South Korea through the dispute settlement procedure. Concerning market analysis the Communication notes that global trends in shipbuilding has declined markedly in 2002. Orders have been very low, slow and selective. Following a decade of almost continuous growth and a boom year in 2000, the rate of generation of new orders has declined sharply. This change has impacted upon EU shipbuilding. Ordering at EU yards was 77% below the level in 2000. The downturn in ordering has been accompanied by a fall in prices of more than 15% on average compared to 2001. Most affected are container ships and cruise liners. Only product tankers have seen a comparatively stable demand, due to the replacement of old tonnage in line with new EU safety regulations (Erika I and II). Oil tankers are also suffering from low freight rates - largely due to uncertainty and volatility of the Middle East and the threat of terrorist attacks. On the other hand, the demand for dry bulk ships of a certain size range has been quite strong, due to the increased need for imports of coal and iron ore to China and Japan. The LNG market has been disappointing and not lived up to some of the optimistic forecasts made in 2000 and 2001. Ordering is well below the projections made then. Further, there remains a significant production over-capacity in the shipbuilding sector, estimated to be at least 20 to 30% above the levels required for the necessary replacement of old tonnage and the accommodation of additional demand stemming from increased sea-borne trade. This over-capacity continues to have a negative effect on prices. Examining the global trends in shipbuilding the Communication makes the following observations: Europe. EU yards have been undertaking numerous measures to improve competitiveness. In the face of an almost flat market, however, the Commission fears that time may be running out. Very few yards have order books stretching beyond 2003/2004. South Korea. The Commission concludes that the South Koreans are resorting to past practices in an attempt to avoid the glut in the shipbuilding market. This is done through the lowering of prices in the face of significant cost increases in Korean production over the past 12 months. The Communication suggests that a number of Korean yards could be heading for insolvency. Neither the Korean Government nor the shipyards themselves seem to consider reducing capacity through, for example, the closure of non-profitable shipbuilding facilities. Japan. Japanese shipbuilding is currently undergoing massive restructuring; bring together a number of shipyards under the umbrella of a few large groups. 50% of orders come from domestic demand, mostly for bulk carriers. They provide a captive market for Japanese yards and allow the Japanese shipbuilding industry to remain competitive. China. Although enjoying a much lower labour cost base than other main shipbuilding countries the Chinese, nevertheless, sufferfrom organisational problems, limited access to technology and delivery delays. In spite of these difficulties the Commission remarks that China could become a major player in world shipbuilding. Lastly, the results of Commission investigations into the costing of shipbuilding, confirm previous findings. Namely, Korean yards continue to shell ships at prices below the full production cost. The gap between contract price and normal price is widening. The most recent investigations show this gap is 18% on average (not weighted), while it was 8% for the new cost investigations summarised in the fifth report.