

# Shipbuilding: new rules for aid

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This sixth report from the Commission on shipbuilding highlights serious market downturn and continuing market distortion. The serious difficulties in world shipbuilding are increasing, as evidenced by a slump in orders for new vessels in the major shipbuilding regions in the first six months of 2002, says the European Commission in its sixth report on the situation of the world shipbuilding market. The report notes that, due to past over-supply, slowing economies around the world and the effects of 11 September, orders have fallen significantly. As a result, shipyards are running out of work and a number of bankruptcies and lay-offs have already occurred, mainly in Europe. In this shrinking market European shipyards are also threatened by unfair pricing by certain competitors. This report demonstrates the important slowdown that has occurred in the industry over the last two years and confirms once more that EU shipyards are exposed to unfair trading practices. In a deteriorating market, their situation has become very critical. It stresses that the Commission has already taken action to defend the EU shipbuilding industry against unfair competition, and will be working closely with the industry to identify the policies needed to further improve its competitiveness. The report shows that in the first half of 2002, world-wide orders for new ships was down by almost two thirds compared to average quarterly figures in 2000. In the EU, the situation is even worse, with orders being down by almost four fifths compared to 2000. Most affected are container ships and cruise ships, but demand is also lower for crude oil tankers and LNG carriers. Demand has remained comparatively stable only in the product tanker segment, due to replacement needs stemming from new EU maritime safety legislation, and in the bulk carrier segment, in which EU yards are no longer active. Prices for new ships have declined further and are now at the lowest level for more than a decade. Yards in South Korea have further lowered offer prices despite increases in all major cost factors and the appreciation of the Korean currency, in order to trigger fresh demand. A number of Korean yards may find it difficult to meet their financial obligations if orders do not pick up soon. The Commission's detailed cost investigations for orders placed with South Korean yards confirm the findings from previous reports, namely that ships are offered at prices which do not cover the full costs of production. The investigations show that the gap between offer prices and calculated normal price is again widening. The Commission will continue its market monitoring and cost investigations and report again to the Council in 2003. On 27 June 2002, the Council decided that the Commission should make a final effort to solve the problems stemming from certain business practices by Korean yards and achieve an amicable agreement with South Korea by 30 September 2002 at the latest. Should the Commission report the failure of these talks, it would be authorised to request a dispute settlement at the WTO. At the same time a temporary defensive mechanism should be authorised for certain market segments and for a limited period only. In August and September 2002, two rounds of talks with Korean government and shipyard representatives were conducted by the Commission, but positions could not be reconciled and the talks therefore failed. In the absence of a negotiated solution, the Commission has now initiated WTO action as decided by the Council last June and re-confirmed at its end of September meeting. The Commission's Decision on WTO action has been published in the Official Journal of October 19. The request for bilateral Consultations with the Republic of Korea was introduced on 21 October. A first Consultation meeting will take place before the end of November 2002.