EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

II

(Preparatory Acts)

(2004/C 302/01)

410th PLENARY SESSION OF 30 JUNE AND 1 JULY 2004

Opinion of the European Economic and Social Committee on the ‘Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions — LeaderSHIP 2015 — Defining the Future of the European Shipbuilding and Repair Industry — Competitiveness through Excellence’

(COM(2003) 717 final)

On 21 November 2003, in accordance with Article 262 of the Treaty establishing the European Community, the Commission decided to consult the European Economic and Social Committee on the above-mentioned proposal.

The Section for the Single Market, Production and Consumption, responsible for preparing the Committee’s work on the subject, adopted its opinion on 9 June 2004. The rapporteur was Mr Van Iersel.

At its 410th plenary session of 30 June and 1 July 2004 (meeting of 30 June), the European Economic and Social Committee adopted the following opinion by 109 votes to three with one abstention.

1. Executive summary

The Commission has devised a new policy framework in close cooperation with the European shipbuilding and repair industry. It is surprising that stakeholders have rapidly been involved in putting together a broad package of measures aimed at securing production and competitiveness in this sector. The EESC notes with approval the method used and the contents of LeaderSHIP 2015. All the parties involved recognise that a national approach no longer has any future and that only a European approach will provide sustainable solutions. In this approach the right choice has been made for a coherent package and for complying with market rules. The EESC would stress that the credibility of the proposals depends entirely on their implementation. Follow-up is therefore crucial. Participation, transparency and careful control of the various processes must be ensured. The EESC fully supports the proposals’ objective of producing a competitive European level playing field. This in turn is a precondition for achieving a world playing field.

2. Background

2.1 The shipbuilding market

2.1.1 Strong continuous growth in the production of ships has been experienced for more than two decades. Rapid technological progress has led to considerable reduction of costs for waterborne transportation, providing an effective stimulus to global trade and making world-wide shipping the key driver of globalisation.

2.1.2 Ships, from an economic perspective, are mobile investment goods, which are not imported but registered under a flag, chosen by the ship-owner. As such, the product does not require extensive marketing efforts or dealer or maintenance networks. Naturally, transportation costs of vessels are also very low. With low transaction costs generally and no anti-dumping rules which apply, the shipbuilding market is heavily determined by offer prices.

2.1.3 As a result of its crucial role in providing the essential means of transportation for global trade, building modern equipment for security and defence needs and developing advanced technologies with numerous spin-offs to other sectors, shipbuilding is regarded as a strategically important industry for most industrialised and industrialising countries.
2.1.4 In Europe a diversified network of companies related to the production of ships, including shipyards, marine equipment manufacturers, and a variety of specialised service providers has developed, providing directly more than 350,000 jobs for a highly qualified workforce. The sector in the EU has a turnover of around EUR 34 billion (1).

2.1.5 Commercial shipbuilding in the EU has however lost massive market share due to damaging business practices mainly from South Korea and faces serious difficulties. Since 2000 the market share for new orders (in compensated gross tonnes – cgt) has dropped by two thirds, from 19 % in 2000 to 6.5 % in 2003 (2). The situation worsened by mid-2003 with prices at their lowest level for 13 years together with a further strengthening of the euro exchange rates with respect to the shipping currency, the US dollar, as well as with respect to the currencies of the main Asian competitors. In particular in the last year international trade has increased dramatically, driven by the extraordinary strong growth of China’s demand for energy and raw materials as well as the import and export of manufactured goods. This demand has led to a record of new orders, in the segments of oil tankers, bulk carriers and containerships. European shipbuilders benefited from this demand surge and have been able to almost double the order intake in 2003 compared to 2002. Nevertheless, their share of the world shipbuilding market continued to decrease.

2.1.6 The dramatic trend until mid-2003 has levelled off to a certain extent in several Member States. However, the latest developments may not last and Europe should seek sustainable solutions for the shipbuilding industry in the near future. If not, Europe could run the serious danger of losing this vital high technology sector. Experience shows that once shipbuilding capabilities are lost, they are unlikely to be recovered.

2.2 Developments in shipbuilding policy

2.2.1 As a strategically important sector, shipbuilding has traditionally been an industry with strong government intervention world-wide. In the European Community as well shipbuilding policy has, since the 1970s, focused on defining the conditions for state-aid systems. The authorised ceiling for operating aid was gradually reduced from 28 % of the contract value in 1987 to 9 % in 1992 and finally completely eliminated from 2000.

2.2.2 In 1989 on an initiative of the USA, negotiations were started in the OECD context with the objective of putting in place a new international discipline for all government support to shipbuilding. These negotiations were successfully concluded in 1994 and the Final Act of the Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry was signed by the European Communities, Finland, Japan, the Republic of Korea, Norway, Sweden and the United States. However, since the United States failed to conclude their national ratification procedures, the Agreement never entered into force.

2.2.3 In the absence of an international agreement, in 1998 the Council concluded a new shipbuilding regulation [EC 1540/98] establishing a new set of rules for state aid, including a full abolition on a unilateral bases of operating aid by the end of 2000. The regulation also required the Commission to monitor closely the world shipbuilding market and to appraise whether European yards were affected by anti-competitive practices.

2.2.4 Already in its first monitoring report to the Council issued in 1999, the Commission provided clear evidence of damaging business practices in particular from shipyards in South Korea that offered prices below cost. All the monitoring reports (seven in total until 2003) that followed confirmed the initial findings, providing more and more detailed evidence.

2.2.5 Based on such convincing facts, the Council repeatedly expressed its serious concerns and initiated bilateral consultations with South Korea. After several rounds of talks, an agreement in the form of Agreed Minutes relating to the World Shipbuilding Market was signed in June 2000. However, in the subsequent talks the Korean Government proved unable to implement the principles laid down in the agreement.

2.2.6 Since the bilateral talks with Korea ended without results, the shipbuilding industry filed a complaint under the Trade Barriers Regulation (TBR – [EC 3286/94]) in October 2000.

2.2.7 The Commission remained firmly opposed to an extension of the operating aid at the end of 2000. However, the Commission did agree to bring the case to the WTO in order to seek remedy against unfair Korean practices if a negotiated solution with Korea satisfactory to the EU could not be achieved by May 2001. In addition the Commission proposed in parallel a defensive temporary support mechanism specifically designed to counter unfair Korean practices for the period necessary for the conclusion of the WTO procedure.

2.2.8 The Community finally implemented this so-called twin-track policy in summer 2002, with the filing of a panel request to the WTO and the decision on the Temporary Defensive Mechanism (TDM – [EC 1177/02]).
2.2.9 Renewed efforts to achieve a world-wide level playing field in the shipbuilding sector were launched in 2002 also in the OECD framework context, this time without the participation of the USA. The OECD Council established a Special Negotiating Group, aiming to find a new and effective solution to the existing problem. Progress until now is regarded as being rather slow and it remains to be seen to what extent this approach will be feasible.

3. A new approach

3.1 As an overview, the steps towards LeaderSHIP 2015 are listed chronologically:

February 2002: the European Shipbuilding and Ship-repair Industry presents an outline proposal for an initiative under the title LeaderSHIP 2015 to Commissioner Liikanen;

May 2002 European Commission President Romano Prodi endorses the initiative and Commissioner Liikanen is asked to coordinate the follow up;

October 2002 the industry hands over a road map to Commissioner Liikanen;

January 2003 Commissioner Liikanen chairs the inaugural meeting of the LeaderSHIP 2015 High Level Advisory Group;

October 2003 the High Level Advisory Group hands its report to the European Commission;

November 2003 the European Commission releases the Communication on LeaderSHIP 2015;

November 2003 the Competitiveness Council addresses LeaderSHIP 2015 in the context of industrial policy;

January 2004 the new framework on State Aid to Shipbuilding is entering into force, taking already into account some of the key issues from LeaderSHIP 2015 and thereby implementing the first recommendations of the High Level Advisory Group.

3.2 Industry’s Roadmap

3.2.1 While the Community approach to the shipbuilding sector has mainly focused on competition and trade policy, the industry felt that a third corner stone - competitiveness policy and in particular a sound concertation of all three policy fields - was lacking. It also acknowledged its own shortcoming in bringing forward its own concerted response to the competitive challenges it was facing.

3.2.2 With the end of operating aid, the industry accepted that subsidies were not the way forward, nor was protectionism of the kind that resulted in uncompetitive industries in shipbuilding nations outside the European Community. However, the aggressive industrial policy in South Korea had to be challenged urgently. A new approach was therefore needed.

3.2.3 When the Committee of EU Shipbuilders’ Associations (CESA) presented its outline proposal for the Leadership 2015 initiative to the European Commission in spring 2002, the value of the project as a sector specific response to the EU’s longer term strategy as defined by the Lisbon Council was immediately recognised. LeaderSHIP 2015 did in fact address the key elements of the Lisbon strategy.

3.2.4 An overall-strategy had to be elaborated, based on elements of the existing approach but the new element being the invitation of the Commission to industry to formulate an integrated plan. In October 2002, CESA presented LeaderSHIP 2015, a Roadmap for the Future of the European Shipbuilding and Ship-Repair Industry.

3.2.5 For the European shipbuilders, the objective is to improve leadership in selected market segments by strengthening competitiveness through innovation and selective R&D, greater customer focus, production optimisation and the improvement of the industry structure. According to the industry, objectives in which the EU should be directly involved include the promotion of advanced financing and guarantee schemes, higher safety and environmental standards in relation to new high quality vessel orders and the maintenance and enhancement of the protection of European intellectual property.

3.2.6 A European approach to naval defence needs implies a common policy on procurement of defence materials.

3.2.7 Macro trends up to 2015 in this sector imply in particular developments in relation to multi-modal transport, inland waterways and short sea shipping, reinforcement of innovation and R&D, EU enlargement, environmental and health regulations and a progress towards a Common Defence Policy. Because of the impact of government and EU policies in all these areas in the view of the industry the Commission should actively participate in the development of ideas in view of forthcoming policies.

3.2.8 The shipbuilding sector itself accepts a big responsibility for bringing its own house in order. The Roadmap advocates therefore the development of new vessel types and new generations of marine equipment, combining efficiency, safety, comfort, environment and specialisation.
3.2.9 As far as the structure of the industry is concerned two complementary approaches involving the companies are foreseen:

— restructuring the industry to arrive at a limited number of large companies;

— small, very flexible companies networking to serve smaller niche markets.

3.3 The High Level Advisory Group

3.3.1 At the beginning of 2003, a High Level Advisory Group, chaired by Commissioner Liikanen, started discussions on LeaderSHIP 2015 based on the CESA Roadmap. The Group included seven European Commissioners, two prominent Members of the European Parliament, the CEOs of the 10 major Shipyards, the Chairman of the marine equipment industry association and the General Secretary of the European Metalworkers Federation.

3.3.2 The Advisory Group published its report LeaderSHIP 2015 in October 2003. It embraces eight chapters, reflecting all the issues covered by the Industry roadmap plus a final chapter on needs of consolidation for the European shipbuilding industry. The overall conclusion of the Group is that 'LeaderSHIP serves as a good example for an effective European industrial policy on sectoral level'.

3.3.3 In these eight chapters the Group identifies objectives for the shipbuilding sector and for the EU as such. First of all, it proposes the creation of a level playing field in world shipbuilding through the EU trade policy, enforcement of applicable WTO rules and enforceable OECD disciplines.

3.3.4 On the central issue of R&D and innovation a close cooperation between the EU and the shipbuilding sector is needed. The relevant Community regulation did not fully take into consideration the specific needs of shipbuilding and its technology.

3.3.5 This is also true for developing advanced financing and guarantee schemes. The present tools are not competitive on the world market. The possibility of establishing an EU-wide guarantee fund for pre- and post-delivery financing should be explored as well as an intensified cooperation with export credit insurance companies, covered by appropriate re-insurance.

3.3.6 Maritime environment protection is streamlined by the European Maritime Safety Agency. A joint expert committee of relevant maritime stakeholders who holds technical knowledge is to be established in order to provide both the Agency and the Commission with technical advice. Quality assessment improvement, safety and control on both shipbuilding and ship repair should be intensified in order to guarantee that appropriate quality standards are applied worldwide.

3.3.7 The call of industry for more cooperation in the defence sector according to the Group can be supported at EU level by promoting industrial cooperation between yards and between yards and suppliers, access to export markets and consolidation of the industry. Common operational requirements of national navies and common rules for defence equipment are needed via the planned European Defence Agency.

3.3.8 Since European shipbuilders strongly depend on their technological leadership the existing instruments for protection of intellectual property rights have to be fully exploited. Knowledge data bases are required and international rules to protect patents have to be improved.

3.3.9 The shipbuilding sector has formally established a committee for the sectoral social dialogue (the first of its kind within the metal trades), in which programmes for new skill requirements are to be analysed and addressed.

3.3.10 An optimal industrial structure is needed to achieve the desired results. A dynamic development process is leading to new relationships and project partnerships between yards and suppliers, given that today suppliers account for 70-80% of a yard's production. A consolidation process with special incentives should be facilitated, based on the concept of 'aid for consolidation'.

3.4 Commission Communication

3.4.1 With its Communication on LeaderSHIP 2015 the Commission transposes the work of the High Level Advisory Group into formal Community policy. It emphasises once again that a horizontal policy needs to be complemented with specific sectoral approaches. The Commission provides an assessment on each of the chapters and endorses the recommendations of the LeaderSHIP 2015 report.


3.4.2 In the Communication, in which the strategic dimension of shipbuilding and ship repair is acknowledged, the Commission in line with the LeaderSHIP report confirms its responsibility and co-responsibility in the following areas covered by the eight chapters of the Advisory Group report:

— in the OECD Sector Understanding on export credits and related OECD agreements together with the promotion of a world level playing field via WTO;

— the Commission has adopted rules applicable to innovation aid and it will monitor the effects of Community-funded research;

— together with the industry the Commission will explore the possibilities of pre- and post-delivery financing in cooperation with the EIB;

— the Commission fully supports the recommendations of LeaderSHIP on the promotion of safer and more environmentally-friendly ships and on policies to exploit opportunities for Short Sea Shipping across Europe;

— on naval shipbuilding the Commission supports the recommendations which are in line with its Defence Communication of March 2003 on preparations for a European Defence Agency in 2004 in order to strengthen the defence and technological base and competitiveness of the defence industry. With respect to consolidation among naval shipyards, it is worthwhile to note that privately owned yards point to the structural differences between European yards, claiming that ‘private ownership is a pre-requisite to succeed in any consolidation effort’;  

— the Commission will cooperate with industry in exploiting the existing instruments for Intellectual Property Rights Protection and in setting up appropriate knowledge data bases;

— the Commission will cooperate with industry through an active social dialogue on new skill requirements, exchange of staff on all levels, special training courses and the support for a vital and sustainable shipbuilding industry;

— since a consolidation process is needed in commercial and naval shipbuilding, and ship repair, which are primarily the responsibility of industry and of the Member States, the Commission is ready to facilitate the process, respecting competition rules.

3.5 Council Conclusions November 2003

3.5.1 On 27 November 2003 the Competitiveness Council has discussed the Commission Communication on LeaderSHIP 2015 in the wider context of industrial policy. The Council recognised the importance of sectorial analysis to sharpen horizontal policies and invited the Member States and the Commission to strengthen industrial competitiveness, notably by taking into account the needs and specificities of individual sectors.

3.5.2 In relation to sectorial issues shipbuilding, aeronautics and textiles and clothing are specifically addressed.

3.5.3 The views of the Council are inspired by the need of a fully integrated approach to enhance competitiveness. The same goes for LeaderSHIP 2015.

3.5.4 The objectives of the strategy of Lisbon require sectorial analyses, improvement of the framework conditions and an open and transparent consultation of all stakeholders, including a social dialogue. The Council emphasises continuing initiatives in this respect.

3.5.5 As regards LeaderSHIP 2015 the Council recommends particular efforts of industry and of public authorities relating to:

— EU state-aid rules on investment in innovation;

— encouragement of research, development and innovation;

— protection of intellectual property rights by Member States and industry;

— facilitating a consolidation process among European producers;

— encouraging approaches designed to bring about greater cooperation between naval and shipbuilding resources in Europe;

— addressing new skill requirements, in the context of a social dialogue within the sector.

3.5.6 The Council wants to be informed regularly on the results of LeaderSHIP and on the implementation of its recommendations.

4. General remarks

4.1 The EESC agrees that Europe needs a viable shipbuilding industry and that sector specific policies have to be foreseen.

4.2 It is remarkable to note that industry has succeeded in defining a cohesive programme for the period to 2015. This model for a modern sectoral approach is correctly based on EU rules as regards market conformity and competition.

4.3 Equally remarkable is that industry itself and seven Commissioners have issued a common plan for the future: LeaderSHIP 2015. This reciprocal commitment has led to the approval of LeaderSHIP by the Commission.

4.4 The EESC appreciates positively the new approach of the Competitiveness Council as regards horizontal and sectoral industrial policy. The case of LeaderSHIP shows how such industrial policy can fine-tune requirements resulting from sectoral aspects with horizontal approaches.

4.5 The EESC welcomes the specific recommendations of the Council concerning the shipbuilding and ship-repair sector. These correspond with the recommendations of the Commission and the sector itself in LeaderSHIP 2015.

4.6 The EESC welcomes this change of perspective for shipbuilding policy as the fruit of both a new method of working and of a new approach to industrial policy on a sectoral level. These could serve as a model for similar initiatives in other sectors.

4.7 More specifically, the EESC is of the opinion that instead of the continuation of national policies, only shared views and principles and commonly agreed practices in the EU will create a sound base for a sustainable shipbuilding and repair industry in Europe.

4.8 The enlargement of the European Union holds opportunities as it can add valuable assets, which allow a European presence in market segments not served any more by EU shipyards before Enlargement (1). Applicable Community rules must be fully respected.

4.9 LeaderSHIP 2015 can only be successful, if action is undertaken simultaneously by all participating partners (industrial partners, the Commission and, in some cases, the Member States) on all chapters, each player acting in areas for which he is responsible.

(1) Such as e.g. large crude oil tankers and bulk carriers which require lower technological skills and for which labour cost constitutes a comparatively large cost element.

5. Conclusions and recommendations

5.1 The credibility of the proposed policy depends on its implementation. Follow-up is crucial and this has to be a transparent process that is carefully monitored. Participation, transparency and adequate monitoring have to be safeguarded. In addition to the Conclusions of the Council the EESC is strongly in favour of a yearly progress report by the Commission to the Competitiveness Council.

5.2 LeaderSHIP 2015 starts with the objective of a worldwide level playing field. The EESC underlines the importance of this policy area as a corner stone for the entire strategy. It fully supports the present EU trade policy approach, aiming at an effective international agreement which ensures tight disciplines world-wide.

5.3 The EESC underlines that the impact of the unfair competition from some shipyards in Asia not only constitutes a considerable threat to the European shipyards, but should alarm also the European marine-equipment industry. The announcements in some of the leading Asian shipbuilding countries that they will concentrate on local content, for their supplies must be taken very seriously.

5.4 In the context of a level playing field, the sector discipline in the EU itself is not specifically mentioned, although there are still different levels and methods of support to shipbuilding by Member States. The internal level playing field and the transparency and monitoring of it are points of special concern. In order to promote the credibility of the process and trust in accordance with the agreed rules and objectives the EESC stresses the importance that the Commission monitors the application of state-aid rules and possible unfair practices.

5.5 R&D and innovation are of paramount importance, because Europe is still the source of shipbuilding ideas for the world. This is therefore another key element to ensure success. It is therefore important that various instruments provide effective support and implemented in a practical manner. Industry can be helpful in providing policy-makers with concrete advice. In any case the application of innovation instruments must be transparent.

5.6 In order to streamline ship financing tools both at national and EU-level the EESC’s view is that the European guarantee fund as suggested in LeaderSHIP should become operative as soon as possible. Its implementation should be a priority for the Commission. This fund can contribute to creating an effective level playing field in the EU itself.
5.7 The EESC welcomes the agreement between industry and the Commission on the kind of environmental requirements and policies which are necessary in the sector. The EU should continue to take the lead in protecting the maritime environment and in pushing for strict implementation of relevant international rules. A coordinated European approach to the International Maritime Organisation can help to ensure a satisfactory level of effectiveness to support authority of the IMO to act exclusively in setting the global rules.

5.8 Considerable improvements in the legislation on safe shipping have been achieved in the EU over the last years. However, greater attention is required as regards appropriate standards for maintenance of ships, as suggested by LeaderSHIP.

5.9 The EU still has considerable weaknesses concerning the enforcement of applicable rules on safety and security in shipping. The EESC therefore strongly advocates effective cooperation between European coastguards.

5.10 The strengthening of short sea shipping and the objective of moving traffic from road to sea are also important environmental goals. To achieve these goals modern infrastructure, including ports as well as ships, must be further improved. As far as public funding of this infrastructure is concerned, public authorities should safeguard that the investments are carried out to the benefit of EU producers.

5.11 The human factor is an essential element and the EESC welcomes the intention to intensify the sectoral dialogue in which the Commission, employers and the trade unions each have their role to play. It is remarkable that it is in shipbuilding where the first formal Social Sectoral Dialogue Committee in any of the metal trades has been established; another indication for the innovative attitude of the sector.

5.12 The Social Dialogue is already making valuable contributions to a broad range of social topics, including training, recruitment, life-long learning and adjustment to cyclical waves. To date two working groups have been established, one aiming to improve the image of the industry and the other to identify new skills required within the shipbuilding sector.

5.13 The Social Dialogue should also address the considerable differences in labour productivity world-wide.

5.14 The EESC agrees with the increasing approach in Europe in favour of special segments of the manufacturing industry such as shipbuilding and aeronautics in relation to defence objectives, with an interaction between civil and defence industry.

5.15 In this context it is pleasing that LeaderSHIP calls for European naval projects and cooperation between naval yards. National security considerations and divergent traditions have hampered these so far. But if the Europeans do not decide on closer cooperation, costs will continue to spiral upwards and endanger the lead in innovation and technology danger.

5.16 Successful cooperation projects already exist, such as those between Germany and the Netherlands on the building of frigates and between France and the United Kingdom concerning carriers. New projects may be planned in collaboration with the forthcoming European Armaments Procurement Agency. Optimum synergy between yards is very important for maintaining and improving knowledge and know-how. It is desirable that the Agency be asked for an inventory of available capacities, technology and innovation at naval yards, so that the best value for money can be pursued in new calls for tenders. Taking into account that naval yards clients are Governments, spill-over of subsidies between naval and merchant vessels production should be avoided.

5.17 Consolidation of the industry is seen as a cornerstone for the future viability of the sector. It remains to be seen, however, how this process will be realised, given the complicated relationship between the core business and the high percentage of suppliers.


The President
of the European Economic and Social Committee
Roger BRIESECH