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**A5-0371/2000**

30 November 2000

## **REPORT**

on the second report from the Commission to the Council on the situation in  
world shipbuilding  
(COM(2000) 263 – C5-0436/2000 – 2000/2213(COS))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Werner Langen



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## PROCEDURAL PAGE

By letter of 4 May 2000 the Council forwarded to Parliament its second report to the Council on the situation in world shipbuilding (COM(2000) 263 - 2000/2213(COS)).

At the sitting of 8 September 2000 the President of Parliament announced that she had referred this proposal to the Committee on Industry, External Trade, Research and Energy as the committee responsible with the power of decision pursuant to Rule 62 of the Rules of Procedure (C5-0436/2000).

The Committee on Industry, External Trade, Research and Energy had appointed Werner Langen rapporteur at its meeting of 27 January 2000.

The committee considered the Commission report and the draft report at its meetings of 13 September and 23 November 2000.

At the latter meeting more than one-third of its current members (47 out of 60) requested, pursuant to Rule 62(2) of the Rules of Procedure, that the power of decision be referred back to Parliament.

At the meeting of 23 November it unanimously adopted the motion for a resolution.

The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Peter Michael Mombaur, vice-chairman; Yves Butel, Felipe Camisón Asensio (for Renato Brunetta), Gérard Caudron, Giles Bryan Chichester, Nicholas Clegg, Willy C.E.H. De Clercq, Harlem Désir, Concepció Ferrer, Colette Flesch, Christos Folias, Jacqueline Foster (for John Purvis), Norbert Glante, Alfred Gomolka (for Anders Wijkman), Michel Hansenne, Malcolm Harbour, Philippe A.R. Herzog, Hans Karlsson, Thierry de La Perriere (for Pat the Cope Gallagher), Bernd Lange (for François Zimeray), Rolf Linkohr, Eryl Margaret McNally, Nelly Maes, Erika Mann, Hans-Peter Mayer (for Dominique Vlasto), Elizabeth Montfort, Angelika Niebler, Giuseppe Nisticò (for Guido Bodrato), Reino Kalervo Paasilinna, Yves Piétrasanta, Elly Plooij-van Gorsel, Godelieve Quisthoudt-Rowohl, Daniela Raschhofer, Imelda Mary Read, Christian Foldberg Røvsing, Paul Rübig, Jacques Santer (for Umberto Scapagnini), Ilka Schröder, Konrad K. Schwaiger, Esko Olavi Seppänen, Helle Thorning-Schmidt (for Elena Valenciano Martínez-Orozco), Astrid Thors, Jaime Valdivielso de Cué, W.G. van Velzen, Alejo Vidal-Quadras Roca and Myrsini Zorba.

The report was tabled on 30 November 2000.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

## MOTION FOR A RESOLUTION

### **Resolution of the European Parliament on the second report from the Commission to the Council on the situation in world shipbuilding (COM(2000) 263 – C5-0436/2000 – 2000/2213(COS))**

*The European Parliament,*

- having regard to the second report from the Commission (COM(2000) 263 – C5 0436/2000<sup>1</sup>),
  - having regard to the first report from the Commission to the Council on the situation in world shipbuilding of 13 October 1999 (COM(1999) 474)<sup>2</sup>,
  - having regard to Council Regulation (EC) No 1540/98 of 29 June 1998 establishing new rules on aid to shipbuilding<sup>3</sup>,
  - having regard to Articles 87, 133 and 157 of the EC Treaty,
  - having regard to Rule 47(1) of its Rules of Procedure,
  - having regard to the report of the Committee on Industry, External Trade, Research and Energy (A5-0371/2000),
- A. whereas the world market in merchant ships remains in crisis on account of dumping by Korean shipyards, with the logical consequence that market shares have altered in favour of Korea and to the detriment of the EU and other States,
- B. whereas the EU has successfully restructured the shipbuilding industry, making quantitative and qualitative adjustments,
- C. whereas the competitiveness of the existing EU shipyards ought to be safeguarded and equality of opportunity attained on the world market,

#### The second report from the Commission to the Council

1. Welcomes the second report from the Commission on the situation in world shipbuilding and broadly supports the Commission's conclusions and recommendations;
2. Expects the promised third report to be submitted at the beginning of November 2000 and that the Commission will initiate specific measures;
3. Regrets that the Commission does not indicate what specific measures are to be used

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<sup>1</sup> Not yet published in OJ

<sup>2</sup> Not yet published in OJ

<sup>3</sup> OJ L 202, 18.7.1998, p. 1-10

to help the shipbuilding industry to further improve its international competitiveness;

4. Hopes that during France's Presidency in the second half of 2000 these specific measures will be proposed and implemented as announced in the programme for France's Presidency of the Council;
5. Urges the Commission not only to produce reports on the situation in the sector but also to take proper, specific, effective action as a matter of urgency in order to ensure the survival of the European shipbuilding industry;

#### Internal policies

6. Recalls that the EU has already radically restructured its shipbuilding industry so as to reduce production capacity in an orderly manner, with social consequences which are well known;
7. Notes that, as part of the quantitative adjustment, productivity has been increased and competitiveness improved, particularly in the European market niche of the building of cruise ships and specialised ships;
8. Stresses that shipbuilding is a high-technology industry and that European shipbuilders have amply demonstrated their ability to compete in all fields where fair competition has left them a chance;
9. Draws the Commission's attention to the many advantages of cooperation amongst the Member States with a view to specialisation, taking into account technological development, the socio-economic impact on traditional shipbuilding regions and the need for a strategy to cope with new environmental challenges;
10. Calls on the Commission, before the end of this year, to submit a proposal for extending by two years the contract-related operating aid provided for in Article 3 of Regulation (EC) 1540/98 establishing new rules on aid to shipbuilding<sup>1</sup>;
11. Calls in this connection likewise for a review of capacity restrictions for shipyards in the Community and flexible adjustment to demand, particularly in the field of specialised ships;

#### External economic issues

12. Notes that, at its meeting on 6/7 July 2000, the OECD Working Party on Shipbuilding decided to intensify efforts to prevent a further deterioration of the world shipbuilding market;
13. Calls on the Commission, jointly with other OECD States which are affected by the crisis in shipbuilding and other appropriate international fora, to cooperate effectively to ensure fair competition worldwide;

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<sup>1</sup> OJ L 202/1, 18.7.1998

14. Calls on the Commission, under the auspices of the OECD, to seek a review of the OECD Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry of 21 December 1994 in order to ensure that OECD Member States base their shipbuilding measures on the full-cost principle;

#### Requisite bilateral action

15. Draws attention to Article 8 of the framework agreement on trade and cooperation between the European Community and its Member States of the one part and the Republic of Korea of the other part, signed on 28 October 1996;
16. Calls on the Commission to consider initiating antidumping measures against imports from the Republic of Korea;
17. Recognises that the Agreed Minutes relating to the World Shipbuilding Market signed by the EU and Korea on 22 June 2000 constituted progress in the negotiations with that country; deplores however the fact that Korea has not abided by its commitments regarding transparency of pricing, as demonstrated by the failure of the Commission's on-the-spot mission of anti-dumping experts last September;
18. Urges the Republic of Korea to comply fully with the obligations in the Agreed Minutes;

#### Requisite multilateral action

19. Notes that the recommended complaint pursuant to Council Regulation (EC) No 3286/94 of 22 December 1994 concerning trade barriers cannot be regarded as an adequate or effective measure, bearing in mind the special nature of a ship as a product;
20. Calls on the Commission to initiate a dispute settlement procedure with the Republic of Korea before the World Trade Organisation (WTO);
21. Calls on the Commission to inform it of the progress of the dispute settlement procedure and propose appropriate further measures to it;
22. Calls on the Commission to continue to investigate what impact the advent of new competitors such as the People's Republic of China is having on the European shipbuilding industry;
23. Calls on the Presidency of the Council to inform Parliament of the state of bilateral negotiations with the Republic of Korea;
24. Instructs its President to forward this resolution to the Council, the Commission and the Member States.

## EXPLANATORY STATEMENT

In its second report on the situation in world shipbuilding, the Commission confirms that there is a crisis on the world market for merchant ships. Supply far exceeds demand and no improvement is in sight. Although demand rose in 1998 and 1999, this did not have a positive impact on prices. On the contrary, the extremely low prices charged by Korean shipyards caused a further fall in prices for virtually all types of vessel. Korea's market share has increased, while that of the EU and Japan has fallen.

According to the report, the aggressive pricing policy of Korean shipyards in particular is resulting in the placing of unprofitable orders, which European shipyards cannot carry out. Even if this is not affecting the volume of orders of EU shipyards, the Commission assumes that this damaging pricing will gradually affect the whole market and will damage shipbuilding in the EU.

It is proposed that the shipbuilding industry in the EU should be restructured so as to reduce production capacity in an orderly manner (quantitative adjustment). Retraining of the manpower released is an important aspect of this. For strategic, social, economic and industrial reasons, however, a certain capacity needs to be retained. Efforts with regard to the surviving shipyards must concentrate on modernising and diversifying production capacity and improving productivity and competitiveness (qualitative adjustment).

The Commission report concludes that there is firm evidence to suggest that even Korean shipyards are offering to build new ships at below Korean cost-price. In many cases, neither operational costs nor the cost of servicing debts are covered by prices. This leaves only cruise ships as a market niche for EU shipyards, as Korean yards are receiving virtually all the orders in all the other market segments.

The Commission also concludes that the boom in the building of cruise ships has stabilised the overall situation of shipbuilding in the EU, although only nine yards in the EU (out of a total of around 150) are producing in this field. Korean and Japanese yards are making increasing efforts to secure orders for cruise ships. 'Once the market is confident that Asian yards can produce cruise ships in time and in sufficient quality this European market niche will certainly be challenged and overall EU market shares may shrink further.' The position of small and medium-sized EU shipyards is under threat, as there is no way in which they can build large cruise ships or naval vessels and they can essentially only build merchant cargo ships.

In order to attain the stated objectives of the EU, namely to restructure shipbuilding and improve the productivity and competitiveness of the surviving yards, it is proposed that State aid should be limited. The Community's previous efforts have had the same effect. However, it would not yet be possible to abolish subsidies altogether, because of the difficult market situation, particularly since shipyards need to be encouraged to make the requisite changes in order to improve their competitiveness. A strict and selective policy on aid to shipyards is the most appropriate way of preserving an adequate level of shipbuilding in Europe and thus ensuring its survival in an efficient and competitive form. Pursuant to Council Regulation (EC) No 1540/98 of 29 June 1998 establishing new rules on aid to shipbuilding, operating aid is to be phased out by 31 December 2000. *However, for the above reasons, the provision of aid should be extended until 31 December 2003. A decision on this is expected by the end of*



2001. In this context, it is particularly important to enable the businesses concerned to plan securely and to observe the principle of annuality.

To bring proceedings pursuant to Council Regulation (EC) No 3286/94 of 22 December 1994 concerning trade barriers is not a sufficiently effective measure to combat Korea's unfair competition. It is only possible that the initiation of a preliminary formal inquiry procedure may have a disciplinary effect.

At the initiative of the United States, negotiations on a shipbuilding agreement began in 1989 under the auspices of the OECD between the EU, Norway, the United States, Japan and South Korea. In 1994, the States agreed on the cessation of aid to shipbuilding. The OECD Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry was intended to enter into force on 1 January 1996, but still has not done so, because just one country has failed to ratify it: the United States. As the agreement had not entered into force, the OECD Working Party agreed to seek effective alternatives in order to reduce market distortions and create a level playing field on the world shipbuilding market.

The agreement provides, inter alia, for consultation and a dispute settlement procedure (Articles 7 and 8). It permits antidumping duties or countervailing duties in response to certain dumping or subsidy measures. (See Annex III of the OECD agreement).

The framework agreement on trade and cooperation between the European Community and its Member States of the one part and the Republic of Korea of the other part, of 28 October 1996, is the first general agreement between the two parties. With regard to shipbuilding, Article 8 contains a precise reference to the aforementioned OECD agreement. In addition, the parties agreed that in the event of any problems, they would consult together. In a unilateral declaration the Community recalled the substance of the declaration which it had issued in connection with the conclusion of the negotiations on the OECD agreement, and called on Korea to cooperate with the European Community and other signatories to the OECD agreement with regard to shipbuilding in order to reduce the major structural imbalance between supply and demand on the world shipbuilding market by appropriate means.

The Agreed Minutes relating to the World Shipbuilding Market signed by the EU and Korea on 22 June 2000 deal with the cessation of subsidies, banking operations, financial transparency (with regard to international accounting principles), pricing policy and an effective consultation process. The overall aim is to promote fair and competitive market conditions on the world market, act jointly to stabilise the market and hence raise the prices of ships to an economically viable level.

In this connection, the EU and Korea held a first consultation meeting in Seoul on 18/19 July 2000. It was described in a document adopted as constructive, positive and open, but represents only a first step. According to the Commission, Korea has given detailed replies to the questions concerning the prices charged by South Korean shipyards and State aid, and has made obvious efforts. The Commission intends to study these replies and submit new questions at a forthcoming meeting at the end of September in Brussels. It will then become clear whether the Commission is entirely satisfied with the replies. A delegation comprising antidumping experts will possibly undertake an assessment mission to see the situation on the spot at the beginning of September, which Korea has accepted. Both sides agreed to cooperate

in order to avoid a WTO dispute settlement procedure being initiated, which would be a possibility under the rules on subsidies. Also at the end of September, the Commission intends to submit a report on the results of these consultations to the Council. This background should be borne in mind when wielding the threat of a consultation procedure. If the consultations fail, the Committee of European Shipbuilders' Associations (CESA) is apparently prepared to complain to the Commission with a view to the initiation of a WTO procedure under the rules on subsidies.

Despite Korea's willingness to cooperate, it therefore seems worthwhile, at multilateral level, at least to threaten that a WTO dispute settlement procedure may be initiated, that antidumping and countervailing duties will be levied or that a procedure to this end will be initiated. Article VI of the General Agreement on Tariffs and Trade (GATT 1994) provides for the latter. The agreement on the implementation of Article VI of the General Agreement on Tariffs and Trade 1994 is more specifically applicable here. In the event of disputes, the agreement on rules and procedures for the settlement of disputes of 15 April 1994 also applies. The threatened measures are intended to bring greater international pressure to bear on Korea to improve the market situation. Korea has no desire to become embroiled in a trade dispute at present, so that in this way it may be possible to solve the conflict and put an end to the practices which distort competition more rapidly.

As regards shipbuilding in the People's Republic of China, the Commission concludes on the basis of its analysis that the industry there is suffering from labour shortages and is having difficulty in acquiring new orders. For example, the Chinese Government recently proposed measures to support shipbuilding with the aim of ensuring that vessels for use in China itself are built in Chinese shipyards; taxes and duties which have previously applied to ships and their equipment are to be abolished. Nonetheless, according to the Commission, China has in the past increased its capacity and built new shipyards or modernised existing ones. Five major shipyards are being built, and five more are being planned. This could possibly have implications for the competitiveness of EU shipyards in future. Moreover, China is about to join the WTO, so further developments in this sector should be examined.