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## REPORT

on the sixth report from the Commission to the Council on the situation in  
world shipbuilding  
(COM(2002) 622 - 2003/2062(INI))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Jaime Valdivielso de Cué



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## PROCEDURAL PAGE

By letter of 15 November 2002 the Commission forwarded to Parliament its sixth report on the situation in world shipbuilding (COM(2002) 622), which had been referred to the Committee on Industry, External Trade, Research and Energy for information.

At the sitting of 7 April 2003 the President of Parliament announced that the Committee on Industry, External Trade, Research and Energy had been authorised to draw up an own-initiative report on the subject under Rules 47(2) and 163.

The Committee on Industry, External Trade, Research and Energy had appointed Jaime Valdivielso de Cué rapporteur at its meeting of 23 January 2003.

The committee considered the draft report at its meetings of 25 March and 23 April 2003.

At the latter meeting it adopted the motion for a resolution by 28 votes to 2, with 0 abstentions.

The following were present for the vote: Jaime Valdivielso de Cué, acting chairman; Peter Michael Mombaur, vice-chairman; Jaime Valdivielso de Cué, rapporteur; Gordon J. Adam (for Gary Titley), Per-Arne Arvidsson (for Marianne Eriksson), Danielle Auroi (for Yves Butel), Luis Berenguer Fuster, Guido Bodrato, David Robert Bowe (for Fausto Bertinotti), Giles Bryan Chichester, Harlem Désir, Concepció Ferrer, Colette Flesch, Norbert Glante, Alfred Gomolka (for Werner Langen), Bernd Lange (for Mechtild Rothe), Rolf Linkohr, Caroline Lucas, Hans-Peter Martin (for Myrsini Zorba), Eryl Margaret McNally, Elizabeth Montfort, Angelika Niebler, Reino Paasilinna, John Purvis, Bernhard Rapkay (for Yves Piétrasanta), Imelda Mary Read, Christian Foldberg Røvsing, Esko Olavi Seppänen, Ole Sørensen (for Bashir Khanbhai), Roseline Vachetta, Philip Bushill-Matthews and Wilfried Kuckelkorn (pursuant to Rule 153(2)).

The report was tabled on 25 April 2003.

## MOTION FOR A RESOLUTION

### European Parliament resolution on the sixth report from the Commission to the Council on the situation in world shipbuilding (COM(2002) 622 - 2003/2062(INI))

*The European Parliament,*

- having regard to the sixth report from the Commission (COM(2002) 622),
  - having regard to the five previous reports from the Commission to the Council on the situation in world shipbuilding<sup>1</sup>,
  - having regard to Council Regulation (EC) No 1540/98 of 29 June 1998 establishing new rules on aid to shipbuilding<sup>2</sup>,
  - having regard to Regulation (EC) No 1177/2002 concerning a temporary defence mechanism to shipbuilding<sup>3</sup>,
  - having regard to Articles 87, 133 and 157 of the EC Treaty,
  - having regard to the conclusions of the Council of Ministers for Industry of 4 December 2000,
  - having regard to Rules 47(2) and 163 of its Rules of Procedure,
  - having regard to the report of the Committee on Industry, External Trade, Research and Energy (A5-0130/2003),
- A. whereas the European shipbuilding industry is still in crisis as a result of the practice of dumping by Korean shipyards, which, if possible, has become even more widespread than in the past, with the European Union's share of the shipbuilding market declining from 19% in 2000 to only 10% in the first half of 2002,
- B. whereas the survival of a strategic sector in the European Union is under serious threat, which could result in it becoming dependent on third countries for its maritime transport needs, both under normal conditions and in the event of disaster or war,
- C. whereas, unlike its competitors, the European Union has already radically restructured its shipbuilding industry in order to reduce production capacity in an orderly manner, with social consequences which are well known,
- D. whereas steps must be taken to ensure the competitiveness of European Union shipyards and guarantee equal opportunities in the world shipbuilding market,
- E. whereas, in the wake of the recent environmental disasters caused by the 'Erika' and 'Prestige' accidents, calls must be made for a 'zero tolerance' regime for the maritime

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<sup>1</sup> COM(1997) 469 - OJ C 114, 15.4.1998, p.14, COM(2000) 263, COM(2000) 730, COM(2001) 219, COM(2002) 205.

<sup>2</sup> OJ L 202, 18.7.1988, pp. 1-10.

<sup>3</sup> JP L172, 2.7.2002, p.1.

transport of heavy hydrocarbons to and from countries of the European Union,

1. Urges that this type of transport be undertaken by vessels meeting the highest technical standards, based on the available technologies and not on minimum international rules, which have proved inadequate in ensuring proper safety and environmental protection in Europe's overcrowded sea corridors;
2. Requests that special mechanisms be introduced to encourage Community shipowners to renew their fleets, further to the conclusions of the Council of Transport Ministers of 6 December 2002 concerning the need for heavier grades of oil to be transported in double-hulled tankers;
3. Urges the European Community to take appropriate measures to prevent tankers transporting crude oil which do not have these features from navigating via European waters;
4. Requests that, given the limited period of application of the temporary defence mechanism and the fact that no shipyard has been able to benefit from it because of its failure to become operative, the Commission should simplify the criteria required for establishing that lower prices are being offered by Korean shipyards;
5. Urges the Commission and Member States, given the situation created by the imbalance between the low level of orders obtained by Europe and the high level enjoyed by its competitors, to extend by one year (until the end of 2004) the delivery date for vessels ordered before 31 December 2000, while maintaining the corresponding aids, in order to provide cover for existing European shipbuilding;
6. Believes it necessary to ensure that the temporary defence mechanism is applied swiftly and flexibly; such flexibility should include the possibility of providing indirect aid, within the established limit of 6%;
7. Expresses its concern that one year after the adoption by the OECD of the new sectoral agreement on the funding of shipbuilding and more than six months after the adoption of the Council decision transposing this agreement into Community law, the Commission has not yet approved some of the national schemes for applying the new OECD funding conditions, placing the European shipbuilding industry at a serious competitive disadvantage vis-à-vis third countries;
8. Urges the Commission to speed up the procedures for urgent consideration of aid schemes notified by the Member States, stressing that procedures governing schemes which are presumed to be compatible under the provisions of Council Regulation 1540/98 should not make it difficult for European shipyards to submit bids in line with the new OECD conditions;

9. Urges the Commission and the Member States to speed up the investigations into the damage being done by South Korean shipyards to categories of vessel not included in the temporary defence mechanism, so that they can be brought within the scope of that mechanism in good time before the damage becomes irreparable;
10. Asks the European Commission to frame the new aid rules that will replace existing Regulation 1540/98, which will be in force until 31 December 2003, in the same legal form and to consider extending all aid headings concerned, particularly in the R&D sector, given the nature of the shipbuilding industry and bearing in mind that each vessel built entails an investment in this field and actually represents a prototype from many points of view;
11. Calls on the Commission to cooperate effectively within the OECD and other relevant international organisations with other States affected by the shipbuilding crisis, to ensure that fair conditions of competition are established at global level;
12. Supports the new LeaderSHIP-2015 initiative, involving representatives of the Commission, European Parliament, industry and trade unions, the aim of which is to develop a strategy to achieve competitiveness and regain technological leadership in shipbuilding by promoting innovation;
13. Calls on the Commission and Member States, in the interests of encouraging industrial cooperation, to propose and approve the establishment of a European shipbuilding consortium which, as has been done in other sectors, will ensure production levels, quality standards and levels of technological development tailored to meet the environmental and socio-economic requirements in this sector;
14. Strongly supports the Commission in the context of the dispute settlement procedure against the Republic of Korea within the World Trade Organisation (WTO), with the aim of achieving a satisfactory and rapid solution for the European shipbuilding sector;
15. Instructs its President to forward this resolution to the Council, the Commission and the Member States.

## EXPLANATORY STATEMENT

In the sixth report on the world shipbuilding situation, which it submits every six months to the Council pursuant to Article 12 of Regulation No 1540/98 on aid to shipbuilding, the Commission confirms that there has been a sharp increase in unfair competition by South Korea vis-à-vis the European shipbuilding industry.

Specifically, the highly unfavourable conclusions reached by the report are as follows:

1. There was a sharp fall in global demand for shipbuilding during 2002 as a result of over-ordering in previous years, the economic recession in the United States and the events of 11 September. New orders were 60% below the level in 2000. In the European Union this figure was 77%.
2. At the same time, prices fell by more than 15% compared to 2001, and have returned to the low levels of 1999, the lowest for 12 years.
3. Container ships and cruise ships (a category which has accounted for almost 50% of European Union orders in recent years) are the categories of vessel worse hit by the fall in demand. Liquid natural gas (LNG) carriers and oil tankers also suffered from a decline in demand.

Attention should also be drawn to the specific case of the dumping practised by South Korean shipyards with regard to the construction of LNG carriers, with different prices being offered on the domestic and export markets, the latter some 25-30% lower than the former.

As a consequence of these anti-competitive practices and the lack of an effective defence system, the European Union's share of the shipbuilding market fell from 19% in 2000 to only 10% in the first half of 2002. Meanwhile, countless European shipyards have closed in Germany, Italy, France, Holland, Sweden, Norway, Poland and Spain. In all these countries, and in Finland, shipyards have been forced to lay off huge numbers of workers, while the order-books of the few surviving yards are totally inadequate.

Furthermore, as is revealed in the previous reports, South Korea has clearly continued to:

- offer prices in all cases lower than costs, and not even covering production costs, with negative margins varying between 20 and 40%.
- grant direct and indirect aid of a dubious nature to shipyards; for example, in April 2002 the Government of the Republic of Korea adopted the 'ship investment company' law creating the first ship investment fund open to foreign investment and combining it with tax deductions for profits derived from this fund; the Korean Government is also considering the idea of adopting a law in May to allow exemption from company tax for such funds.
- maintain bankrupt shipyards in full operation, in breach of the undertakings given by South Korea for receiving aid from the International Monetary Fund.



In order to end this unfair competition, the Commission attempted to negotiate with South Korea, but in the light of the disappointing results obtained decided to propose that the Council lodge a complaint against Korea with the World Trade Organisation. At the same time, a temporary defence mechanism was introduced for the construction of container vessels, chemical tankers and oil tankers, which were the only categories of vessel manufactured in the European Union which the inquiry launched under the TBR (Trade Barriers Regulation) found to have suffered serious prejudice. At the instigation of the AWES (Association of European Shipbuilders and Ship Repairers), the Commission agreed to launch a new investigation under the TBR to determine whether there was any evidence that other types of vessels had been directly affected by unfair competition from South Korea.

The findings of the new investigation confirmed that container vessels, chemical tankers and oil tankers had suffered prejudice, but were inconclusive on the subject of LNG carriers.

On 2 July 2002, Council Regulation (EC) No 1177/2002 was published in the Official Journal of the European Communities and introduced a temporary defence mechanism including the following features:

- the Commission would seek to negotiate a fresh agreement with Korea. If this could not be done by 30 September 2002, it would ask for a panel to be set up at the World Trade Organisation.
- With effect from the date on which the Commission gave notice in the Official Journal of the European Communities that it had initiated dispute settlement proceedings against the Republic of Korea, national aid could be granted for the construction of container ships and chemical tankers.
- LNG carriers could also benefit from such aid, but only with effect from the date on which the Commission gave notice in the Official Journal that it confirmed, on the basis of investigations covering the period of 2002, that Community shipyards which build this type of vessel had suffered serious prejudice as a result of unfair competition from South Korea (these investigations were likely to be concluded by March 2003).
- The maximum amount of aid would be 6% of the contract value of the vessel.
- The aid would remain in force until 31 March 2004.

At the Council meeting of 30 September 2002, Commissioner Lamy notified Member States that the negotiations with South Korea had failed and the Commission was therefore bringing legal proceedings before the World Trade Organisation.

The Commission published its decision concerning legal proceedings before the World Trade Organisation in the Official Journal of 19 October and on 21 October the request for bilateral consultations with the Republic of Korea was lodged.

In the final analysis, it seems clear that the Republic of Korea has no intention of complying with the recommendations on tailoring its production capacity to international demand, since it is continuing to introduce production aid schemes and will therefore continue its practice of dumping, at least in the medium-term. At the same time, it should be noted that since 1998 it has systematically extended its anti-competitive practices to new categories of vessel, beginning with container ships and now extending to the manufacture of a whole range of vessels including cruise ships.

With regard to shipbuilding in the People's Republic of China, the Commission's analysis reaches the conclusion that the country's shipbuilding industry generally enjoys a much lower labour cost base than the other shipbuilding countries, but still suffers from organisational problems, limited access to technology and delivery delays. Nevertheless, its market share has gradually increased in recent years, and once the above problems have been overcome, it could pose a threat to the European industry. A constructive bilateral dialogue should therefore be engaged with China within the OECD framework to prevent it developing a trade policy similar to that of South Korea.

Finally, in the face of unfair competition from South Korea, it is essential for the European Union to propose new and effective mechanisms and instruments to preserve and develop the strategically important shipbuilding sector, in which it is a technological leader. At the same time, efforts within international organisations such as the OECD and the World Trade Organisation should be maintained and stepped up in order to secure an international environment that guarantees free competition in this sector.