



**COUNCIL OF
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NOTE

From: General Secretariat
To: Council (Competitiveness)
Subject: Competitiveness Council of 5 and 6 December 2011: Any other business (item 18a)
European Shipbuilding
- Information from the Commission

With a view to the meeting of the Competitiveness Council on 5 and 6 December 2011, agenda item "Any other business", delegations will find attached an information note from the Commission concerning European shipbuilding.

The Council (Competitiveness) of **5 December 2011** is invited to take note of the Commission information note.

European Shipbuilding - Situation of the Industry and Outlook

The European shipbuilding industry in 2008 entered into a severe crisis which is accompanied by increasing difficulties for large parts of the shipping industry. While production remained stable until 2010 and turnover even increased, due to the long lead times and the high value of orders placed during the boom, the industry received hardly any new orders in 2009. A limited recovery of ordering in 2010 has not progressed in 2011 and most forecasts expect high global overcapacities for a considerable time¹. The order book of European yards reached a historical low, in mid 2011 covering only about 18 months of production. In a number of yards the situation is even more dramatic with a high loss of employment, or sometimes even bankruptcy and closure, as a consequence.

However, some market segments are in a robust condition and show promising growth perspectives. Examples are supply vessels and installations for the off-shore industry (oil, gas and off shore wind energy) and marine dredgers, amongst others. Another promising area is the “greening” of shipping through the reduction of emissions from ships and improvement of their energy efficiency². This is of particular interest for the European marine equipment industry, which has so far shown a better resilience to the crisis. Maintenance and repair yards mostly show a reasonable performance as well. These industries are indispensable for servicing the fleet and a wide range of marine installations. Together with the newbuilding yards they have a crucial role in providing the technical solutions to the environmental challenges in the maritime sector.

¹ OECD, WP6: Changing characteristics of the shipbuilding market, October 2011.

² For a detailed discussion see: White Paper - Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system; COM (2011) 144 of 28.3.2011.

A stronger focus of the European shipbuilding industry on these emerging markets is necessary. This is in line with the LeaderSHIP 2015 initiative which was launched as a strategic response to tackle fundamental challenges in the sector. Its core orientation remains fully relevant: Maintaining and developing a strong position in selected higher-value market segments, by development and application of advanced technologies and innovation as key factors for competitiveness³. The strategy has been instrumental for keeping a strong presence in the production of specialised and innovative vessels (for example cruise vessels, ferries, dredgers).

At present passenger vessels (44%) non-cargo vessels (22%) and vessels for the transport of specialised cargo (14%) dominate the European order book while the share of standard cargo vessels (tankers, bulkers and container ships) has massively decreased to 14%.⁴

With the advance of the global crisis the industry has voiced strong concerns about strong risks for the survival of shipbuilding in Europe. Even competitive yards well positioned in terms of market segments are struggling to remain in the market and to keep their skilled workforce. Member States, the Commission and enterprises have necessarily moved their focus from longer-term measures to short-term action in the area of finance, employment and restructuring.

Increased efforts are now needed to grasp the opportunities in the emerging market segments. European maritime industry as a whole with its strong innovation and design capacity has a strategic role to play in addressing major challenges such as climate change and energy efficiency. This requires a reinforced co-operation between industry, the social partners and public authorities on a regional, Member State and European level.

To that end, the following areas merit particular attention:

- **Research, Development and innovation**

Enabling innovation, in particular by pooling scarce resources, by reducing the fragmentation of innovation support systems and by increasing the market focus of research projects is essential;

³ See COM (2003) 717 of 21.21.2003.

⁴ See CESA, Annual Report 2010-11, p. 9.

The implementation of the 7th Research Framework Programme notably assisted by the Waterborne Technology Platform and the adoption of the future Horizon 2020 RDI programme will contribute to fulfil the Commission's strong commitment to safe and sustainable transport.

Moreover, the Commission will examine in co-operation with all relevant stakeholders if other existing instruments like the Lead Market Initiative (LMI) can be used to reinforce a partnership approach at community level and favour diffusion of recently developed technologies.

- **Access to finance**

In the present economic situation, the first priority for the European shipbuilding industry is to have access to finance at reasonable conditions. This is why Commission services have focused efforts in this area and have entered into intensive discussions with the European Investment Bank in order to make sure that its new Transport Lending Policy, which should be adopted before the end of the year, addresses the various needs of the sector.

However, commercial banks have a dominant role in the financing of the activities of European shipyards. Some of the banks which have a long tradition in this specialised lending area are affected by the financial crisis and are therefore reluctant to enter into new engagements.

- **Level playing field**

As a result of the difficult market situation worldwide many trading partners are widely using subsidies, support to export financing and market restrictions. Despite the failure of discussions in the OECD to reopen negotiations for a global shipbuilding agreement on prices and subsidies, the Commission remains committed to fostering the development of fair competition in the shipbuilding market.

In this respect, the OECD with its monitoring mechanisms on subsidies and its ongoing work on the revision of the Sectoral Understanding on officially supported export credits for ships (SSU) remains an important forum, together with bilateral discussions taking place notably in the context of the Free Trade Agreement and Agreed Minutes with Korea and the Shipbuilding Dialogue with China.