



## INFORMATION

### **German shipbuilding sector stabilized by market upturn and political supportive measures**

Shipping markets developed gratifyingly in 2004, leading to high levels of newbuilding orders. German shipyards benefited in particular from the high demand for containerships and were also successful in other important market segments.

Companies registered significant price increases on a US dollar basis but on the other hand had to contend with dramatic rises in prices for shipbuilding steel as well as for main engines. Because of these factors and the continued strength of the euro against the US dollar, the market upswing did not contribute noticeably to an improvement in the situation for the industry and shipyards were unable to increase their equity capital, which is a vital consideration for the future. In this respect, the protective measures against the South Korean distortions of free market competition approved by the EU up to the beginning of 2005 were certainly important for companies' good performance.

German marine equipment suppliers also benefited from the improved order situation last year. They continued to achieve over 60% of their sales with exports, profiting from the strength of the Asian shipbuilding markets as well as the high number of orders placed by German shipowners with foreign yards.

The WTO action initiated by the EU against subsidies granted to shipbuilders in South Korea showed that these yards have in fact benefited considerably from impermissible subsidies, for example via export credits. The EU was unable to have its position accepted in every respect in this action, but this certainly does not mean that fair competitive conditions prevail in world shipbuilding. In addition to the export subsidies declared to be not in conformity with the WTO, the responsible WTO panel confirmed that comprehensive restructuring subsidies were also paid to South Korean shipyards. However, the European side could not prove that these were effected in a way not complying with free market principles.

There was also no progress made in 2004 with efforts to achieve fair global competitive conditions via an OECD shipbuilding agreement. In fact, this is being obstructed by South Korea and China, particularly as regards achieving an effective instrument against "injurious pricing", which is indispensable for the EU and the European shipbuilding industry. A breakdown in the negotiations is thus possible.

In this situation, the political leadership in Berlin and in the German coastal states has consistently followed its course as determined at the Third National Maritime Conference. It was possible to convince Brussels that the state guarantees for shipyards do not involve the granting of subsidies. A regulation for providing assistance for innovations for shipyards was reported to Brussels and has meanwhile also been approved. This is gratifying, even if it is still necessary to make improvements in some areas and the level of assistance remains inadequate.



The budgetary situation of the coastal states resulted in a considerable reduction in the levels of support necessary with the temporary defence measures. These measures, which were designated generally unjustifiably as subsidies, will no longer be available to shipyards after March 31st 2005. A new era is thus beginning for the German shipyard industry without direct subsidies: companies will have to focus even more on their own strengths and being more innovative than their competitors.

Shipbuilding is negatively affected in particular by various changes in tax legislation, especially the restriction of the carrying forward of losses and minimum corporate taxation, leading to a taxation of property impairing companies' positions. This is counterproductive for the mainly small or medium-sized German shipbuilding companies that already have insufficient equity capital and prevents them from making urgent investments.

German naval shipbuilders are strong and competitive. The merger between ThyssenKrupp shipyards and HDW is generating further synergies. German yards must retain and expand their technological leadership for conventional submarines, frigates, corvettes and mine counter measure vessels. It is particularly important for them to be able to demonstrate their capabilities in export markets on the basis of the vessels they have built for the German Navy. The German Navy is supporting German shipyards in this respect. It is now vital to proceed with the new programmes, as otherwise development capacities at shipyards are endangered. In view of tight defence budgets, new alternatives, such as leasing or "target costing", have to be considered in order to secure employment in this segment of the German shipbuilding industry in the long term.

At the beginning of 2005, the Fourth National Maritime Conference in Bremen and the presentation of the study on the "Improving the competitiveness of German shipbuilding" commissioned by the Federal Ministry for Economics and Labour clearly defined the future of shipbuilding. Both emphasized the sector's impressive capabilities, as well as the enormous efforts that are needed to ensure it maintains its top international position. The German shipbuilding industry is consistently meeting these challenges with the shipbuilding LeaderSHIP initiative, but its success also requires support on the part of both trade union partners and the political establishment to enable it to remain competitive.

*Further details on the world shipbuilding market are given in our annual report for 2004. You can request this from us or find it at our website: <http://www.vsm.de>*

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