

## **EU and German shipbuilding initiatives support better market prospects**

The rise in demand for containerships apparent in spring 2003 has developed into a broadly-based upswing. Orders for large containerships of over 5,000 TEU dominated in the first half of 2003, and then demand for smaller containerships picked up in the following twelve months, also benefiting German shipyards in the long term.

This market growth was supported by positive factors resulting from decisions taken in Brussels and Berlin. The German government in particular has prompted decisions in Brussels prepared by industry with the "LeaderSHIP 2015" concept. This enabled the German government along with the coastal states with their constructive and consistent policy to end the long-standing dispute concerning the instrument of German state guarantees, thereby restoring planning security in the ship financing area in Germany.

In autumn 2003, the German chancellor was among those calling on the EU Commission to put a stronger emphasis on industrial policy. The "Conclusions of the Council" were passed in the EU Council on November 27th. These also include arrangements for the shipbuilding industry with the possibility of promoting innovation capabilities, putting shipbuilding (which has no support for developing prototypes) at the same level as the rest of the transport sector. This approach is being made more definite with the EU framework that is currently being transposed into national law under the title "Innovative shipbuilding secures competitive jobs".

The South Korean subsidies detrimental to free market competition prompted the EU Commission to propose a dispute settlement procedure to the World Trade Organisation (WTO) on October 24th 2002. As the negotiations and fact-finding have taken longer than originally planned, the WTO's decision will probably be delayed by about a year and is now expected at the beginning of 2005. The EU Council therefore decided on March 11th 2004 to extend the "temporary defence mechanism". Although this burdens the federal and state budgets, it would be short-sighted to make savings here in the wrong area, as thanks to this measure employment in the German shipbuilding industry can be kept largely stable at both shipyards and equipment suppliers for the duration of the conflict resolving procedure. The Association for Shipbuilding and Ocean Industries (VSM) thus expects the federal government and the coastal states to continue with their clear shipbuilding policy.

As demand has not yet picked up significantly in the market segments of passenger and Ro-Ro ships, it was only logical for shipyards to switch to building containerships and product tankers. A significant change in the market can be achieved only with an improvement in the international security situation and a stabilization of positive market forces.

The naval shipbuilding segment faces serious employment problems. The freezing of the defence budget and its one-sided focus on major air force procurement programmes threatens army equipment suppliers and the naval shipbuilding industry to an extent that must be regarded as an erosion process if no counter-measures are taken. As our neighbours in the UK, France and Italy have adopted a strong anticyclical order

placement strategy for their navies, a European industrial policy solution in the current situation can only lead to the German naval shipbuilding industry, a leader in technical and commercial terms, being given an insignificant junior role. As monopolistic customer, the Federal Ministry of Defence must be aware of its responsibility in this respect.

The German shipbuilding industry is also threatened by German tax legislation and the undifferentiated cuts in subsidies, which does not take into account the fact that the level of budgetary items for the promotion of the shipyard industry has been steadily declining for some years. Relative to 2002, the cuts in subsidies would affect the budget for 2004 to an above-average extent.

The changes in tax legislation in autumn 2003 (restriction of losses carried forward and more stringent regulations on shareholders' borrowings) resulted in a considerable taxation of assets particularly for the mid-sized business sector, with negative effects on the equity situation of German shipyards as well as investment and innovation activity. Given the need to maintain and improve the competitiveness of the German shipbuilding industry, this must be regarded as a step in the wrong direction and countering the federal government's innovation promotion programme. In an era of globalisation and international competition in the tax area, it is disastrous to introduce isolated solutions disadvantageous to companies in Germany only to achieve short-term budgetary objectives.

After the federal government's successes at European level, it would be fatal if domestic opportunities were lost and no improvements made.

*Further details on the world shipbuilding market are given in our annual report for 2003. You can request this from us or find it at our website: <http://www.vsm.de>*

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