



**NEW INTERNATIONAL INSTRUMENT AIMING TO
ESTABLISH LEVEL PLAYING FIELD IN THE GLOBAL
SHIPBUILDING INDUSTRY**

POSITION PAPER

About SEA Europe

SEA Europe, the European Ships and Maritime Equipment Association, is the voice of the European maritime technology industry. SEA Europe promotes and supports European business enterprises which are involved in the building, construction, maintenance and repair of all types of ships and other relevant maritime structures, including the complete supply chain of systems, equipment and services.

The EU 28 maritime technology industry is currently the leading global region in terms of aggregated production value of shipbuilding and ship systems production (EUR 112.5 Billion), and an important generator of employment (900.000 direct and indirect jobs).

1. EXECUTIVE SUMMARY

SEA Europe wishes to underline the need for a plurilateral agreement to be negotiated amongst key shipbuilding economies with an aim to restore normal competitive conditions in world shipbuilding markets and to achieve a global level playing field.

Normal competitive market conditions, non-distortion of trade, open markets and a global level playing field are vital to secure the economic, political, strategic and military interests of the EU as well as the economic interests of and jobs created by the European maritime technology industry.

Moreover, achieving a healthy and balanced global market, by tackling the “root causes” of crises in the shipbuilding and shipping industries – through internationally agreed rules – is essential to secure the interests of both the global shipping and shipbuilding communities.

In the light of the severe current crisis in the global shipbuilding and shipping industries, there is indeed a growing awareness amongst main global shipbuilding and shipping market players that cut-throat competition of shipyards increases instability, volatility, speculation and overcapacity. A plurilateral shipbuilding agreement aiming at restoring normal competitive market conditions and at creating a global level playing field will undoubtedly stop the downward spiral of unsustainable pricing or other forms of distortion and subsequent government bailouts. Such agreement is a vital instrument in ensuring that the many mistakes from the past are not repeated in future.

2. SEA EUROPE POSITION

SEA Europe fully supports the ongoing discussions to relaunch the negotiations of an international instrument to restore or safeguard normal competitive conditions in the global shipbuilding industry.

Such instrument must take the form of a global or plurilateral agreement, be legally binding and include safeguards, such as a dispute settlement and a retaliatory mechanism if legal obligations are violated. ***It must also review as well as address ALL market distorting factors***, including subsidy and support measures, unfair pricing practices, and all other practices which distort normal competitive conditions in the world shipbuilding industry and thereby create severe adverse effects for European shipbuilding as well as for European maritime equipment manufacturers. More specifically:

a) Subsidies and other support measures

An effective international subsidy discipline through a global or plurilateral binding agreement is a core element to restore or safeguard normal competitive conditions in global shipbuilding. In this respect, SEA Europe agrees that ***the new agreement should address – as a starting point – the issues related to subsidies and market support measures already identified during the negotiation of the 1994 OECD Agreement.***

However, the provisions of the 1994 OECD Agreement alone will not suffice to bring about substantial progress towards a global level playing field since new forms of government interventions have surfaced since then. Therefore, in order to be effective, ***the new agreement should also address all new practices and support measures that cause market distortions in world shipbuilding markets.***

b) Targeted mechanism tackling unfair pricing practices

To ensure a global level playing field and restore or safeguard market balance, measures on state intervention in the shipbuilding industry alone are not sufficient. At the WTO, anti-subsidy and anti-dumping disciplines have always been a pair of instruments to deal with trade distortions simply because both elements are interlinked.

Experience has showed that extreme cases of indebtedness and consequent bail-outs were mainly the result of lasting unsustainable pricing policies. Hence, global rules through an international or plurilateral agreement would be urgently needed to prevent the initial cause for the accumulation of debts, i.e. prices below costs.

“Normal value prices” are the ultimate expression of normal competitive conditions in a market. Particularly in a sector like shipbuilding, with a limited number of very large transactions, companies suffer primarily damage from abnormal competitive conditions in the moment when contracts are lost due to abnormally low offer prices by a competitor. The mechanisms that have brought about the abnormally low offer price are ultimately irrelevant to the damaged competitor. This is all the more the case when such mechanism surface only with a large time gap as e.g. may be the case with state backed bail-outs. In order for an international agreement to be effective, all market players need to be encouraged to respect Normal Value Prices and need to be effectively discouraged to engage in the opposite way.

The existing antidumping rules (i.e. WTO Antidumping Code) do not effectively address distorting pricing practices in the shipbuilding sector, amongst others due to the fact that ships are rarely produced in (large) series and are rarely imported in the sense known for most other products. The inclusion of targeted provisions tackling unfair pricing practices could therefore facilitate the application of one of the core pillar of the WTO system to the shipbuilding industry. Moreover, from today's perspective, such mechanism would have contributed to a more balanced market and reduced the impact of purely speculative ordering.

c) Challenges faced by the European maritime equipment manufacturers

The structure of the global shipbuilding industry has changed over the last decades, primarily due to the significant increase in shipbuilding activities in Asia with a much stronger focus on global value chains within shipbuilding and increased trades in marine equipment. ***Government measures, such as local content requirements, which may have an impact on the global value chain in shipbuilding or other measures favouring local marine equipment producers should be included in the new international or plurilateral shipbuilding agreement.***

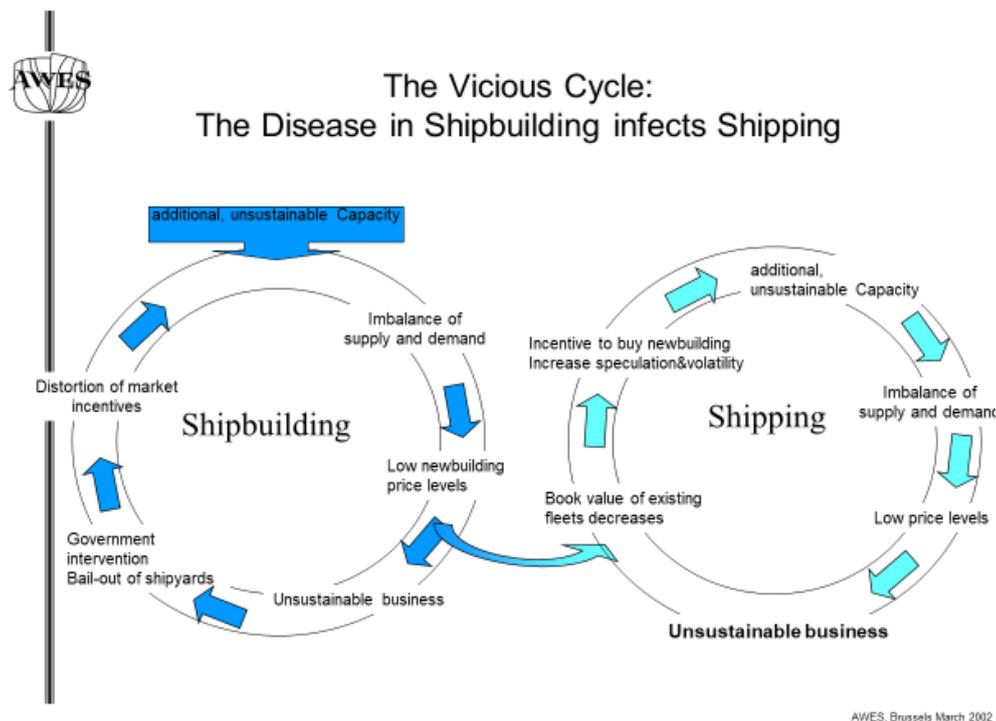
3. REASONS TO RESTORE NORMAL COMPETITIVE CONDITIONS IN WORLD SHIPBUILDING

1. The structural problem in world shipbuilding

The world shipbuilding industry has always been characterised by cyclicity, strong government intervention and overcapacity. These characteristics have induced shipbuilding companies to engage in injurious pricing practices. These practices have then resulted in tremendous distortions of competition, with European companies being the main victims.

State aid to expand shipbuilding activities as well as state aid to avert shipyards from preventing them to exit the market, have contributed to overcapacity which – in turn – contributed to a

continuous “vicious circle” with dramatic consequences for global shipbuilding as well as for global shipping (as can be seen in the chart below).



Due to the specific nature of shipbuilding, notably a global and cyclical industry with long production cycles and capital-intensive investments, the negative effects of certain market distortions can be and have been long lasting as well as damaging for the whole international shipbuilding community. Moreover, the specific nature of the product and its market prevent an effective application of the WTO rules. **Consequently, shipbuilding operates de facto under a unique absence of trade rules.**

II. What is at stake?

In the current climate of trade protectionism and growing geo-political tensions, Europe must be very vigilant and secure its own shipyards and maritime equipment enterprises. A lack of vigilance may result in the likely disappearance of 300 European shipyards and more than 22,000 European maritime equipment manufacturers (of all sizes). It would also result in the disappearance of more than 900,000 jobs and thus specialised skilled workforce and of an annual turnover of €92 billion. This situation would result in Europe becoming fully dependent on other political powers for the building of ships or the production of maritime equipment. It would also weaken the EU and its economic, political, strategic and military presence in the world.

Furthermore, in the current climate of greening of shipping as well as of enhanced use of automation or digitalization in shipping, European shipbuilders and maritime equipment manufacturers play a key role with the building of environmental-friendly, sophisticated ship types and the production of systems, equipment and technology that enables the global shipping industry to become greener or better connected. If Europe would lose its own shipbuilding and maritime equipment industry, Europe will no longer be able to determine the political agenda on environmental or other societal challenges, both worldwide (e.g. in the International Maritime Organisation) or in Europe.

Regrettably, in the past decades, Europe has not been vigilant enough and has therefore already lost almost its entire market for the building of tankers, bulkers and

containerships. These ship types are nowadays almost all built in Asia as a result of Asian Government's massive state aid support distorting the market.

What happened in the past with merchant ship building, can happen again with the sophisticated and high added value niche shipbuilding segments in which European shipbuilders are world market leaders today. Equally, another lack of vigilance from Europe can also adversely impact the world market leader position of the European maritime equipment industry.

And the threats are real. Today, third countries like China are clearly targeting the European success markets of advanced and complex ship types, including cruise ships, as well as the European markets of sophisticated maritime technologies, systems and technologies. This targeting is the result of two factors, notably the current severe shipbuilding crisis in Asia, with Asian government trying to make their local shipyards and equipment manufacturers survive through massive government support, and geo-political and geo-strategic tactics from China.

Moreover, the current dramatic situation in world shipbuilding markets has also a considerable impact on other maritime sectors. With an overcapacity of cargo ships, shipowners – including European shipowners – are confronted with reduced freight rates, whilst facing severe political pressure to upgrade their fleets with environmental-friendly ships. This upgrade requires significant investments in innovative, clean and safe technologies. However, in the current circumstances, shipowners – including European shipowners – refrain from making such investments or are simply no longer in a position to do so. A lack of necessary investments may also impact the safety of seafarers or the marine environment.

4. CONCLUSIONS

For the above-mentioned reasons, it is essential for Europe and for European shipbuilding and maritime equipment manufacturers to have a legally binding international or plurilateral agreement that restores normal market conditions and creates a global level playing field.

SEA Europe stands ready to play a constructive role in the forthcoming process and remains available for any further information or clarification that may be needed at this stage.