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domestic market and—after minor modifications to comply with special requirements in the foreign market—they are exported with the certainty of acceptance by the foreign importing market. As a rule, where industrial goods are concerned, it can be taken that the public had at least a general knowledge of the product. This does not preclude that export of widely known industrial products has been preceded by detailed research into sales opportunities.

For tropical agricultural products, in contrast to that, it is the natural qualities of the product and the natural conditions for its growth which are the unalterables. On the one hand, it is the specific and characteristic natural qualities which set the product apart, either because of its taste or because of the opportunities for its exploitation and thus reduce or eliminate any competition from similar, related or substitute products produced by industrialised countries—in contrast to industrial goods, where there is often very direct competition between almost identical products. On the other hand, however, these characteristics raise problems in selling to countries with different climatic conditions—neither tropical nor sub-tropical, but mod-

erate—and therefore with different tastes and requirements. Thus it is necessary to investigate the probable acceptance of the product, both in its natural condition and also when adapted to consumer preferences; it is also necessary to acquaint the consumer with the basic product and with industrialised products derived from this and adapt these to his taste. When exact information about consumer behaviour has been obtained, advertising will be necessary to promote detailed knowledge of the product's qualities.

But this is not all. There are tasks to be performed and problems to be solved all along the route which the product has to follow from its inception, or from its harvesting, right down to the end consumer.⁹ We cannot list here all desiderata, but it is clear that a successful diversification of exports by the exploitation of tropical products is dependent upon a multitude of initiatives focussed around a systematic approach.

⁹ In two of the product studies published by the Hamburgisches Welt-Wirtschafts-Archiv, this is pointed up by using the examples of the two products, Ramie and Babassu. See: Christian Wilhelm: Opportunities for Increasing Brazil's Exports through Diversification. Part I: Ramie—an export product ripe for development. Hamburg 1963. Part II: Babassu—unexploited wealth. Hamburg 1964.

Shipbuilding and Subsidies – Pros and Cons

By Dr. Karl Kühne, Brussels

World Shipping and Shipbuilding

The question whether shipbuilding subsidies are justified or not cannot be answered without examining the whole background of world shipping.

Demand for Ships

There is some controversy about the long-term outlook for shipping. The volume of world trade has increased by almost 140 % since 1950. Seaborne trade in dry goods grew almost at the same rate, oil transports much faster: by 240 %. Total tonnage of ships did not even double; the only alarm sign seems to be that tanker tonnage trebled ... But at the same time, the efficiency of the Fleet increased, after a fall in the degree of utilisation—largely due to ports delays—had been largely overcome in the early fifties. The Fleet seemed too small in the Korean crisis of 1951 and the Suez crisis in 1956—and yet “a surplus of tonnage emerged in 1958 ..., by 1959 it had all the signs of heralding a prolonged depression ...”¹

In fact, since 1957, the demand for ships had certainly flagged very considerably. Total orders for ships of more than 1,000 GRT, in that year, were around 35 million GRT.

Since then, orders have gone down, after 1959, to less than 20 million GRT and reached a minimum of 19 million GRT at the end of 1963. Since then, orders recovered somewhat, to 40 million tdw. (approximately 25 million GRT). This increase should not be

overrated, the less so as its regional distribution is very uneven. Half of these orders went to Japan which only held 7 % of world orders in 1951: That country's fleet alone is to grow by 6.4 million GRT up to 1968, according to the plan of 1963, to something like 19 million GRT; besides, almost 60 % of Japan's output are produced for export. A good deal of growth can be expected in the Eastern bloc: the Soviet Union (whose figures are not contained in the above statistics) alone plans to bring her fleet up to 20 million GRT by 1980 (actually: 7 million GRT). The most dynamic growth in shipping will therefore hardly bring any great benefit to Western yards.

Supply of Ships

On the whole, the supply of ships, on a world scale, decreased by some 15 % between 1958 and 1961 and since then recovered by about one quarter: But almost the whole increase of 2.3 million GRT between 1961 and 1964 was swallowed up by Japan; other countries like Sweden benefited by the continued decrease in German and (up to 1963) British shipbuilding.

Ships Launched *
(in 1,000 GRT)

year	Japan	Great Britain	Sweden	Germany (Fed. Rep.)	World
1956	1,746	1,383	489	1,000	6,670
1958	2,067	1,402	760	1,429	9,269
1961	1,799	1,192	742	962	7,940
1963	2,367	928	888	971	8,538
1964	4,085	1,043	1,021	890	10,264
1965	12,220

¹ J. R. Parkinson, The Economics of Shipbuilding, Cambridge 1960, p. 54.

* according to Lloyds' Register.

About 60 % of the tonnage are for export, in Japan, Sweden, Germany and the Netherlands (launched 226,000 GRT in 1964). Great Britain exports only one quarter of the tonnage launched. Whereas home producers supply almost all the ships registered under the Japanese, German or (generally) US Flag, 20 % of Swedish and British ships were built in other countries; on the other hand, as much as 15 % of French and almost 40 % of Dutch shipping were built abroad. The Dutch used to buy from Germany, although they export on a large scale, to Britain and France.

Structural and Cyclical Changes in World Shipping

Anyway, one can say that between 1939 (69.4 million GRT) and 1962 (140 million GRT), or between 1948 (81.1 million GRT) and 1965 (160.4 million GRT) world shipping doubled again. Almost half of this increase between 1948 and 1965 is accounted for by the tanker fleet which increased by three and a half times in this period (from ca. 15 to 52.3 million GRT), almost one quarter by the bulk carrier fleet (about 20 million GRT in 1965).

It would surely be rash to rush to the conclusion that the spectacular fall in rates, which occurred between 1956 and 1962—by more than one half, as witnessed by the British tramp index—can be solely explained by the increase in tonnage. There are other factors.

Nevertheless, some such conclusion may seem to be justified if one considers the drop in tanker rates: the Norwegian Sterling index fell from 249 in 1956 to a minimum of 51 in 1961. If this is true, pressure on shipbuilding can be explained on the same basis: 70 % of all ships launched in 1964 were tankers and bulk carriers, and besides it is true that, comparatively speaking, one ton of a tanker provides less work for the yards than, for instance, one ton of an ocean liner. Therefore, the structural changes in world shipping go a long way to explain part of the predicament of shipbuilding.

Ships launched annually represent nowadays about 6 % of total world tonnage. This is rather less than, for instance, in 1900 when new launchings represented almost 8 % of world tonnage; but it is much more than the percentage of either 1910 (5 %) or 1929 (4 %). According to the figures given by J o l m e s, (which seem to include the US-Reserve Fleet) in all the years but three, since 1954, the world fleet has been growing by about 4 % annually if one leaves out the exceptional 7.1 % of 1958. This does not look excessive, at first sight:

World tonnage grew between 1896 and 1909 by 3.4 % annually, between 1913 and 1920 by 3.4 % and between 1920 and 1929 by 3.6 %. However, it must not be forgotten that speed and average length of haul increased by at least 10 to 20 %, between 1937 and 1960. And the figures look somewhat different as soon as the US-Reserve Fleet is excluded: Then the growth between 1949 and 1954 is 4.8 %, between 1954 and 1960—6.3 %. It might seem therefore, that the increase in tonnage, at least from 1954 onwards, was indeed somewhat excessive, and that it induced an undue expansion of shipbuilding capacity.²

² Cf. S. G. Sturme y, *British Shipping and World Competition*, London 1962, p. 393.

The Problem of Capacity in Shipbuilding

There are at least three different questions: Was there any undue increase of capacity? Can it be diminished? If not, what will be the extent of over-capacity in view of ships to be built?

Actual production figures do not give an idea of real capacity of shipyards. One may suppose that world capacity more than doubled since 1956. To the extension of capacities in Allied countries during the war was added the reconstruction of yards in Continental Europe and Japan. Destruction and dismantling of German yards had doubtless been overrated. Thus, one may presume that world capacity increased even faster than the world fleet: The size of the shipbuilding industry is geared to the maximum stress periods, to exceptional growth rates, and it is difficult to make it shrink again, even relatively. Besides, there is the growth in size of ships: with regard to ships of more than 100,000 tdw., it is said that the number of shipyards capable of building them increased from a few, around 1955, to 30, in 1963. In general, it was estimated that world capacity, in 1964, was around 12 million GRT³, it may be at least around 13.5 million GRT to-day. As to the problem of diminishing capacity, quite a number of British yards—after the voluntary liquidation of William Gray—have closed down, involving more than 30 wharves. This comes on top of the big dismantling process in the thirties, which had reduced British capacity from 3 to 2.25 million GRT.⁴ The German Schlieker yard also closed down. Recently, about one third of French capacity amalgamated. On the other hand, it may be supposed that rationalisation measures in Britain and the Common Market added almost as much in real capacity. And on top of it comes the permanent increase in capacity planned in Sweden and Japan, which may add at least 10 %, up to 1970: Therefore, world capacity may be at least around 15 million GRT in that year.

Now, modest estimates carried out by the European Community of Coal and Steel resulted in an expansion of the world Fleet by about 5.5 million GRT annually, in 1970 (on the base of a growth rate of 2.5 % - 3 % for dry goods tonnage, 6 - 6.75 % for tankers). Estimates for replacement varied between 3.8 and 5 million tons annually, so that total shipbuilding in 1970 might amount to anything between 9.3 and 10.5 million GRT—provided there is not another drastic slump in world trade and freight rates. This would mean that, by comparison with 1965, world production might shrink by at least 14, if not 19 %, on condition that world prosperity goes on—a not very bright outlook, indeed, so far covered by euphemistic headlines in many publications.—Optimists may find some consolation in the estimates of the OECD Working Party⁵ which were considerably higher: they foresaw 9.9 million GRT of new construction between 1st January 1963 and 1st January 1973, annually, and 2.2 million GRT of replacement construction. For that ten year period, it foresaw total construction to be around 121 million GRT altogether. But one should remember that these estimates were based on

³ Cf. Estimate in article "Langfristige Aussichten des Weltschiffbaus", in: *Wirtschafts-Korrespondent*, Hamburg, Apr. 4, 1964, p. 43.

⁴ G. C. Allen, *British Industries and their Organization*, London 1935, p. 166.

⁵ Report of OECD's Industrial Committee, Working Party No. 5, of 25th February 1965, p. 119 etc.

an annual growth rate of 5% in the dry goods trade and of 8% for oil transport—figures which do not seem to be quite warranted, in the light of development of world production.

Competition in Shipbuilding

Costs, Productivity, Prices, Profits

It is therefore probable that world shipbuilding will be working at and about 65 to 70% of capacity, if the CECA estimates are correct—, and at the very best at 80%, if OECD proves right. If we want to examine who will survive, in these circumstances, we must look at the cost situation.

The cost structure of a shipyard—on the basis of British figures—seems to be somewhat like this: for iron and steel and other metals about 11%, and marine machinery and equipment costs about 12% of total costs, other purchases about 20%: this adds up to 43% for materials. Work on materials given out amounts to 11%, wages costs are a further 35%.

It may be said that the price of steel and that of labour are the most decisive elements. There is still a widespread error about wages lingering around: the idea that low wages give the Japanese an "unfair" advantage. The very idea of world division of labour—or the classic theory of "comparative advantage"—demand that an advantage in such an important cost factor should be fully exploited. In shipbuilding, European industry is not protected by that "natural tariff barrier" constituted by distance: A ship can begin its working life in the far East as well. What really counts is not distance between shipyard and shipping company's office, but the relationship between wages and productivity. Location problems only count for shipyards with regard to deep water access—sometimes difficult for French and German yards—and space available. It is true that in 1957, Japanese workers earned about one half of what British workers earned on the Clyde (around 30 £ a month, as against 65 in Britain). But their employers were handicapped by the fact that they could not discharge workers at will. Anyway, according to a Dutch report, Japanese hourly wages were around 73 US cents in 1962—as against 96 cents in Britain, 108 cents in Germany, 169 cents in Sweden and 300 cents in USA. Between 1959 and 1962, the fastest increases in wages were to be noted in EEC countries: hourly wages rose in Holland by one third, in France by almost 60% and in Germany by 36%—as against 17% in Britain, 18% in Sweden and only 10% in Japan. Only Italy, with a 16% rise in wages, remained in line with third countries.

Nevertheless, what gave the Japanese their real advantage, was their incessant drive at increasing pro-

ductivity: a 10,000 GRT cargo vessel required, on their yards, 1,015,000 man hours in 1949 and only 600,000 in 1955—and the movement continued. And besides, Sweden proves that high wages do not at all exclude competitiveness. Output per man is about half as great again in Swedish shipyards as in British ones, and even in the United States it is supposed to be 20% higher than in Britain. The best Japanese yards seem to approach Swedish standards. Still, in view of high percentage of wage costs, shipyards will be very much affected by differential development of labour costs. In 1964, labour costs per GRT—representing relative labour productivity, though reflecting of course differences in equipment and organisation as well—were around 124 \$ in Sweden, 153 in Japan, 241 in Germany, 333 in Britain, and 1678 \$ in the USA.

One dares say that shipbuilding cost increased almost as fast as tonnage grew. Cost of building one tdw. of a new ship (of the "Fairplay" type, 9,500 dtw., 5,300 GRT, 12 knots) in 1946 was around 28 £; it increased to 83 £ 15 sh. up to 1958.⁶

But it was exactly in those years that voyage profits in tramp ships fell sharply, from a maximum of 16,2 £ per ton in 1956/1957 to 3,3 £ in 1959/1960.

And worse: the rate of profit for the whole of the post-war period had been below that in the "supposedly depressed twenties"⁷. This was because tramp rates fell by more than one half between 1956 and 1959, to fall even lower in 1962, and tanker freights reached rock-bottom. "At these low rates properly converted bulk carriers could make a living while conventional tramp ships could not".⁷ So the bulk carrier came up, since 1952—and the shipyards were competing about orders for a type of ship on which they were earning relatively less, and for which "building has probably been carried too far."⁷

There is a strange logic in all this: freight rates broke down in 1958 and remained rather low ever since. This obliged shipowners to lower costs, which they did by ordering bulk carriers and ever bigger ships. For the shipyards, this meant investment, rather higher costs and lower profits, because there was less work in bigger ships, comparatively speaking, increased competition for fewer units and contracts and more excess capacity. One is almost tempted to add that all this had been, in the last resort, the outcome of a policy of subsidies designed to favour shipping and shipbuilding: for if everybody practises subsidy policies and protectionism, the outcome must be more

⁶ Cf. Indices given by F. Henning, *Die Konjunkturlage der Weltschifffahrt 1957/9*, Hamburg, Hamburgisches Welt-Wirtschafts-Archiv, 1959, p. 14, and: Parkinson, op. cit., p. 207.

⁷ S. G. Sturmev, *British Shipping and World Competition*, London 1962, p. 254/6.



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ships and more shipbuilding than would have been the case in the absence of such policies—and in the long run depressed rates, which in turn lead to the vicious circle described above. This has been the argument of Siegert already in the early thirties, and it still holds good to-day.⁸ There is a difference between the goals the States are pursuing⁹: keeping up their tonnage, keeping their shipyards going, and what they really achieve in the long run: making sea transport cheaper—the only justification may be that this fosters world trade. But in the thirties they just kept trade down by “beggar-my-neighbour-policies”—and tonnage up ...

Credit Problem and Subsidy Aspects

The tighter the shipowners' and shipyards' profits were squeezed, the more important became the credit problem. The credit problem has three different aspects: first, credit facilities and low interest granted directly by governments certainly overlap with the subsidy aspect.

Second, there are the credit facilities to be granted by the shipyards to potential buyers: This aspect offsets, to a certain degree, the first one. In the good times prior to 1958, buyers paid about one third of the ship's price when the building contract was signed, one third after delivery and the rest after a short period of guaranty had elapsed. Nowadays, the shipyards must often be content with only a quarter of the ships' price being paid at delivery, the rest being covered by instalments running over several years.

Third, there is the aspect of private credit facilities being granted to shipyards: The worse the situation, the more difficult it is to obtain credit, by ordinary facilities, in the private market, for what looks to be a declining industry. Such yards as are closely integrated in the framework of bigger trusts—like those in the big Italian State Trust IRI—enjoy doubtless a relatively favourable situation, because they can partially rely on self-financing within the trust.

Incidentally, there seems to be one particular factor favouring Japanese shipbuilding: Capital is supplied on an increasing scale from the United States. In this way, United States technical know-how and skill is combined with Japanese cheap labour. If one adds to this the preponderant role of American influence in the oil industry and its orders of tankers, this combination might be one of the most formidable dangers for European shipbuilding.

Tax concessions and investment allowances as well as allowances on contracts are practised in Britain, Scandinavia and the Netherlands, accelerated investment in these countries and almost all countries of the Common Market. They may as well be considered as special forms of credit facilities, furthering self-financing. Of course, they can also be considered as subsidies; so what will have to be said of direct subsidies will be applicable to these indirect forms of aid as well.

⁸ Cf. F. Siegert, *Die Subventionen der Weltschifffahrt und ihre sozial-ökonomischen Wirkungen*, Berlin 1930, p. 60.

⁹ Cf. also: S. Zuellig, *Die Seefrachten 1920 - 1938*, Zürich 1942, p. 62 ff.

The effect of direct and indirect subsidies being given to Japanese ships and shipyards is being estimated to represent at least 10 % of the cost of ships, and it has been suggested that the remedy would be to introduce aid measures of a similar extent in Europe, diminishing the cost of ships by about 10 to 15 %. What seems to be essential is that such plans should be combined with long-term plans to improve the structure and efficiency of European shipyards and shipping. It may be doubtful whether this can be achieved in a limited period by 1969. At any rate, overall planning may be involved, and it will be probable that the whole of the maritime transport policy, including ports, regional policy and attitudes towards “conference” cartels, will have to be coordinated in a rational manner.

Industrial Organization and Efficiency

The strange thing is that of the two countries heading the world list of efficient shipbuilders, Sweden and Japan, both had the highest steel prices—at least in the early fifties—and one is a high wage producer, of material and of labour, but industrial equipment and organization. It is true that nowadays, however, special rebates on steel seem to be one of the most effective subsidies granted to Japanese shipyards today.

Nevertheless the decisive thing is innovation: So the Japanese changed from riveting to universal welding, in the early fifties, as well as to prefabrication; they engaged a large number of university graduates for technical jobs, built up assembly shops and sliding transportation inside the yards and thus managed to construct 40,000 tdw. tankers in six months.

In Sweden, managerial arrangements are also decisive: Prefabricated sections are used, moving belts are applied inside the yards, and especially the production engineer is paramount in discovering always new methods and opportunities for cost reduction. It does not seem a mere accident that in Sweden as well as in Japan the administrative personnel is rather numerous—this is the price to be paid for high productivity.

Besides, the fact that concentration has been pushed much farther—both in the vertical and horizontal sense—in both countries seems to be of paramount importance: 6 Swedish yards handle almost the whole (96 %) of Swedish output, and still collaborate very closely. 9 Japanese yards yield 80 % of ships being built in Japan; there are altogether 15 yards in Japan building deep sea ships—but 40 in EEC countries ...

Bigger shipyards mean many advantages: cheaper supply of raw materials, because of rebates on the basis of quantities and regularity, diversified production and therefore decreased risks, greater independence from buyers and monetary conditions, lower costs, especially in capital utilization, all round. This does not mean that concentration is a universal panacea, nor that it is without its own peculiar dangers.

Competitive Situation of Shipyards

The outcome of all this is that American, French and Italian shipyards do not seem to be very competitive, except under conditions of high world demand: So they both rely on heavy shipping subsidies, though in Italy the Tambroni Law of 1954 diminished them some-

what, by comparison to the law of 1938. German shipyards are in difficulties to-day in face of rising costs. Dutch yards seem to be very competitive.

It is quite possible that it was not the over-expansion of equipment in German shipyards, for instance, which made them less competitive, but exactly the contrary: "... a policy of make-do-and-mend and cautious spending on capital equipment was more characteristic of the investment programmes of many (German) yards."¹⁰ In other words: Capital input and rationalisation were not enough, and the real reason of the falling behind, was, in some countries (including Germany?) the fact that they did not remain up to date with regard to technology, modern organization and equipment. The facts are that from 1955 to 1964, the Japanese share in world shipbuilding increased from 15 to 39 %, whereas the EEC share decreased from 38 to 27 %.

The Economics of Subsidies

Economic theory has always condemned subsidies: They hamper more efficient producers, tie up capital which should be switched to other more productive uses, molly-coddle inefficient firms and take the spur off them which might be provided by fear of bankruptcy. In principle, "trade which cannot be carried on but by means of a bounty is necessarily a losing trade" (Adam Smith).¹¹

In practice, subsidies designed to further reconversion and modernization of shipyards have been granted for a long time in Italy, France and Britain: Success has not been spectacular, so far. In Germany, the practice began in 1962.

Besides, there are export subsidies to shipyards: in this case national sacrifices were made to favour foreign ships which then competed with the national Fleet of the exporting country.

If, however, subsidies to shipyards should be given to favour the national Fleet, one might ask whether it would not be better to give them directly to the shipping companies. The answer might be that these subsidies might then be used to buy ships in foreign shipyards. If the subsidies are "tied" in such a way that the companies receiving them might be obliged to spend the money buying ships from national shipyards, the fact remains that the money is thus likely to be spent for ships which are more expensive than they would have been if bought abroad.

The gist of the matter is this: Does one want to help the ships or the shipyards? One cannot have it both ways.

Subsidies and Preferential Systems in Shipping

France is surely also famous for its aid being given to State companies. Such aid may not favour the shipping industry in general: "The total amount currently paid in aid to French shipping appears to be less than the tax relief from investment allowances of British shipowners."¹² If we exclude these elements and consider direct construction subsidies given to shipowners, this leaves us with a list of a few countries: Australia, India, Italy, USA and Yugoslavia. Other countries,

¹⁰ Parkinson, op. cit., p. 186.

¹¹ Adam Smith, *Wealth of Nations*, Book IV, Chapter V: "On Bounties".

¹² Fairplay, Apr. 26, 1962, p. 37.



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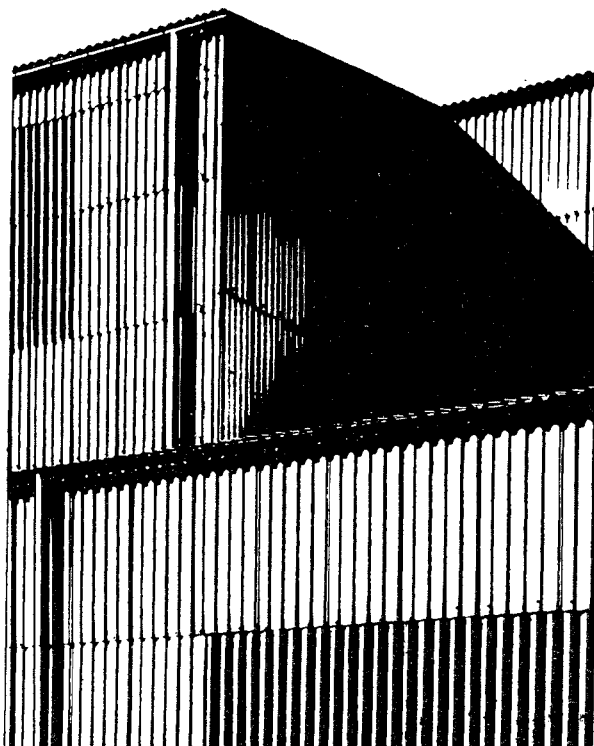
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notably Spain, Portugal and Japan, as well as Latin American countries are practising important preference and indirect assistance such as credit facilities are ubiquitous and have been discussed above.

By no means should the effect of such subsidies be overrated. For instance, Parkinson said about the Japanese yards: "The policy of promoting output by subsidies would have failed if it had not been backed up by a decisive effort to bring down costs."¹³ At any rate, these countries who engaged in outright subsidization, like Italy, Spain and the United States, did not always succeed in obtaining spectacular growth rates for their fleets.¹⁴

From 1949 to 1954, world shipping expanded by 4.8% annually; only Italy exceeded that rate with 9.3%, while Spain (+2%) remained far behind, and the USA Fleet actually decreased by 0.3% annually; between 1954 and 1960, the world growth increased to 6.3% annually; Spain improved, but did not reach the world rate with 6.1%, Italy was left behind (4.3%) and US-decrease actually accelerated (—1.7% annually). It seems, therefore, that one cannot rely on shipping subsidies to maintain a high rate of growth of national fleets and shipbuilding. The examples of Japan and France cannot be cited: In Japan's case, "the destruction of the Fleet ... removed the effects of prior subsidies"¹⁵; the Fleet reached its prewar size only in 1958.

Flag discrimination in its various forms certainly exists, apart from the above named countries, in most Latin American and many Asiatic countries. All these forms of protectionism, according to the most extreme estimates, never affected more than 8.5% of world trade on the seas; if one examines the situation in detail, 5.7% seems to be a much safer guess.¹⁶

Nevertheless, protectionism extended to shipping, together with subsidies given to shipyards, may contribute towards disequilibrium in the shipping industry, by making ships cheaper. Much depends on the form in which aid is being given: If, for instance, subsidy systems are combined with obligation to scrap a certain tonnage, or, better, to scrap it for every ton put in service, this may still prove to be the best indirect help to shipping and even shipyards. Such schemes have been tried in the past, for instance in the plan announced by the British Government on November 30th, 1934, for subsidizing British tramps: It provided that for every ton of new shipping two tons of old should be scrapped.¹⁷

Surplus capacity should be eliminated not only because it imposes a burden on average running costs, but because in the long run industries afflicted with it fall an easy prey to technical stagnation, as had happened in Britain in the past.¹⁸ Technological stagnation in shipping will have its effects on the shipyards as well.

On the other hand, subsidies, while stimulating investment and therefore technological development, do not

provide a complete solution. Fayle has declared that "it was not the ships in receipt of large direct subsidies that proved the most formidable competitors of British shipping."¹⁸

Can a similar thing be said about shipyards? In 1946, Pigou emphasized that large contractions in shipbuilding, which are bound to follow large expansions, will be catastrophic if they coincide with general recessions in world trade.¹⁹ Are we just now about to witness such a development in the near future, a branch depression coinciding with a world slump? Great care must then be taken to co-ordinate subsidy policy inside EEC.

Subsidies to Shipbuilding

In examining the question of subsidies being given to shipyards, one may be tempted to ask one impertinent preliminary question: may not the same money, given to the shipowners and spent on, say, Japanese yards, be better employed? However, there may certainly be special justifications for subsidies to the shipyards if either or all of the following conditions are fulfilled:

- ☐ Foreign shipyards are being subsidized and/or practise "dumping" prices (thus, for instance, Japanese prices are said to be 10% at least lower than they would be in the absence of subsidies);
- ☐ National shipyards in European countries are obliged to buy materials which are unduly expensive, because of national policies (in coal or steel);
- ☐ National shipyards are to be reorganised and need some "breathing space" to regain competitiveness.

The third case is related to the famous "infant industry" argument which can only be applied in a very cautious manner to developed countries. At any rate, it does not justify long-term subsidies. There seems to be an element of it in recent proposals to step up or maintain subsidies.

The second case involves an eventual reconsideration of national policies affecting other industries; for instance, steel might be too expensive because coal is being protected and its prices are kept up. It might be noted that steel, in 1954, before trouble began to become apparent in some Italian yards, was about 4 to 7% more expensive in Italy than in Britain. On the other hand, in spite of recent criticism concerning stiff special rebates on Japanese steel for shipyards, it must not be forgotten that steel was rather expensive in Japan in the early fifties²⁰—which favoured cost saving through a change from riveting to universal welding and by new designs of the ships' hulks, making them shorter and saving 10 to 15% of the steel.

It is the first case, however, that is of paramount importance. Recent proposals in the EEC are based on something like the following philosophy: One may argue that it would be no good to profit from cheap shipbuilding prices abroad, sacrificing the own shipyards, only to be confronted to-morrow by a potential foreign monopoly whose prices might then go up again. This argument is reinforced by all sorts of regional and employment considerations, and especially by the idea that foreign cheapness is largely due to

¹³ Parkinson, op. cit., p. 184.

¹⁴ Sturme y, op. cit., p. 392/3.

¹⁵ Sturme y, op. cit., p. 393.

¹⁶ Sturme y, op. cit., p. 205/6.

¹⁷ G. C. Allen, *The Structure of Industry in Britain*, London 1961, p. 149.

¹⁸ C. E. Fayle, *A short history of the World's Shipping Industry*, London 1927, p. 274.

¹⁹ A. C. Pigou, 1946 and 1919, in: *Lloyds Bank Review*, London, July 1949.

²⁰ Cf. Parkinson, op. cit., p. 195, 184 etc.

subsidies. Furthermore, one considers that it is possible to match foreign efficiency, if only some time is given to reorganize and modernize the industry.

The danger in these considerations is of course that, by maintaining capacity, such policies might contribute in the long run towards a situation when shipyard capacities all over the world might be artificially inflated, while demand is flagging. And worse still: by making ships cheaper all over the world, through subsidies—money which might have been employed in a more efficient way in other branches—,tonnage may be still more unduly increased, which may contribute to lower rates, lower demand for ordinary ships, give a further fillip to bulk carriers and thus favour them in a way not quite compatible with pure cost considerations, because there is this artificial policy behind it.

Whatever the merits of these considerations may be: It may still hold good that subsidies are temporarily justified, provided one can prod the shipyards into a real efficiency drive. One must only take care that shipyards which will have to be closed down will effectively be closed down while the general economic situation is still favourable. Indeed, it would be better to turn workers over to other branches while they still might easily find new jobs.

At any rate, if subsidies alone cannot be relied upon to maintain a high rate of growth of national shipping, one may still ask whether they might not contribute towards maintaining a steadier rate of employment in shipbuilding. This would mean a policy of variable subsidies, according to the business cycle situation, which is not easy to be carried out.

In fact, the percentage of tonnage exported increased, if one compares the late fifties with the period of 1950/55, in Japan from 40 to 60 %, in Germany from 45 to 60 %. In the Netherlands, it increased only slowly, from 53 to 57 %, and in Sweden it actually decreased slightly. The decrease was disastrous in Britain: from 35 to 23 %! It is true that the Panlib-fleet bought a lot of ships from Japan and thus might have profited from Japanese subsidies: the Japanese went as far as to grant sugar import licences to shipbuilders, which, when sold, were equivalent to 5 % of the price of exported ships!²¹

²¹ Parkinson, op. cit., p. 183.

Of course, if subsidies are to be given to shipyards in order to offset similar subsidies abroad, this presupposes an exact knowledge of the extent to which foreign cost and price advantages are due to that factor and to others. The danger is that a vicious spiral might be set going, resulting in cut-throat prices all over the world and aggravating a potential long-term depression in shipping that might otherwise be avoided, while productive resources are being squandered just to avoid an international division of labour that may be desirable.

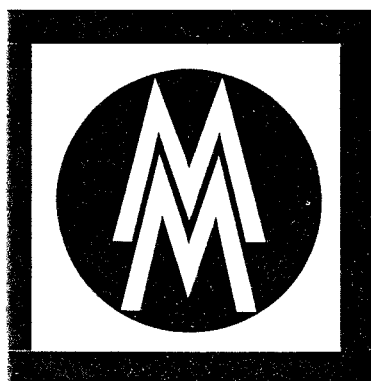
The best solution to all these problems would of course be an international agreement to stop all subsidies being given to ships or to shipyards, all over the world. This is certainly utopian, and it would anyway be very difficult to implement and to control.

The second best solution seems to be a system which, while helping shipyards that have fallen behind in efficiency, leads to a gradual improvement in productivity for the best yards, whereas sub-marginal yards are gradually being closed down, their workers or even plants being re-adapted to other, more efficient activities. This may mean tax bounties for mergers, special allowances for accelerated depreciation of new equipment, development aid, credit facilities for new sites, etc. Such schemes might be linked with modernization schemes for shipping, designed to foster scrapping of inefficient tonnage and modernization of the fleet.

As has already been emphasized, similar schemes have already been tried in the past, notably in the thirties. If in the past such schemes were not successful, it should not be forgotten that this was largely due to ill-conceived overall policies of Governments, at that time. It has been said that in those days "Government policy ... in Britain and other countries, was on the one hand directed towards increasing the efficiency of the mercantile marine", while "on the other hand it was designed to restrict the volume of trade that the ships are to carry."²²

The European Common Market and the stimulus it is giving to investment and therefore trade seems to be the best guarantee that such "beggar-my-neighbour-policy" will never be paramount again.

²² Allen, British Industries, 1935, p. 157.



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