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# The German Shipbuilding Industry in the World Market

by Werner Fante, Hamburg \*

**The following article outlines the position of the German shipbuilding industry in the world market against the background of the changes in demand which followed upon the mineral oil crisis. Emphasis is laid on the adverse effects of competition-distorting measures, and suggestions are made for their removal.**

**T**he German shipyards in 1974 delivered 138 new sea-going vessels with a tonnage of 2,164,615 grt (against 140 totalling 1.9 mn grt in 1973). The delivered ships had a value of about DM 3,547 mn (compared with DM 3,810 mn in 1973). The 1974 tonnage was the highest ever recorded by German shipyards. Among the delivered ships were 66 totalling 841,936 grt for foreign shipping companies, and these were of a value of DM 1,719 mn — 48.5 p.c. of the total shipyards' deliveries.

Weighted according to the value of the ships and the labour involved, the deliveries by the shipyards of the Federal Republic of Germany amounted to 1,114,096 grt of "compensated tonnage". The German shipyards thus ranked second in the world — behind Japan and in front of Sweden.

### **Manifold Structural Influences**

About 50 shipyards in the Federal Republic of Germany engage in the building of sea-going ships. The structure of the German shipbuilding industry is such that its production programme includes a wide range of vessels — from big tankers to tug-boats and harbour vessels. Special ships for liner and tramp shipping are of particular importance. The main product of the big shipyards, apart from tankers, are fully containerized ships, while the medium-sized shipyards give preference to the building of container ships, roll-on/

roll-off vessels, ferries and specialized supply units.

The sales opportunities and output expectations of the shipbuilding industry depend largely upon the development of international trade. The investment decisions of German as well as foreign shipping companies are a function of their expectations in regard to future freight rates which in turn depend essentially on future cargo availability. Prospective cyclical variations in world trade therefore carry special weight in the shipbuilding industry.

The sea-borne world trade increased in 1974 by about 5 p.c. (against 13 p.c. in 1973) in tonnage terms. That the growth of sea-borne world trade slowed down is mainly due to the downward tendency of crude oil shipments which had provided especially strong impulses for shipping in the sixties. In 1974 the crude oil shipments rose by a mere 2 p.c. and the shipments of oil products by as little as 0.5 p.c. whereas the sea-borne world trade in other goods still recorded an above-average increase of 8.6 p.c.

Another structural change observed in 1974 was that the tendency towards longer sea routes in evidence since 1966 was arrested; in ton-miles the growth of sea-borne trade amounted to about 4 p.c.

As a result of the general trend the freight rates in the tanker market slumped over a wide front after the first quarter of 1974 in which they had

\* Association of the German Shipbuilding Industry.

still been fairly stable. The fall of freight rates was especially marked for big crude oil tankers; smaller and medium-sized units and product tankers still gave relatively better results.

### Changes in Demand

Against this background the demand for different types and sizes of ships underwent great changes in 1974. While nearly 10 mn grt of new oil tanker tonnage had still been ordered in the first half of the year, few ships of this type have been ordered anywhere in the world since the middle of 1974, and a considerable number of shipbuilding contracts have been cancelled or changed to other types of ships.

The order receipts and deliveries of the various types of ships compared in 1974 as follows:

|   | Deliveries<br>(in mn grt) | Order<br>receipts<br>(in mn grt) |
|---|---------------------------|----------------------------------|
| Crude and oil product tankers                         | 20.68                     | 9.83                             |
| Combined bulk carriers                                | 2.41                      | 0.15                             |
| Bulk carriers   | 5.00                      | 6.25                             |
| Dry goods freighters<br>(for other than bulk cargoes) | 2.71                      | 4.20                             |
| Gas and chemicals tankers                             | 0.65                      | 2.75                             |
| Fishing vessels                                       | 0.48                      | 0.39                             |
| Other ships   | 1.03                      | 1.23                             |

The competition for new shipbuilding orders is extremely severe in the world at present, and many indications suggest that it will remain so in the next two years. In the present situation of the market it is therefore important that shipyards should be flexible.

### Essential Flexibility in Production

This flexibility, i.e. the ability to adapt the production programme with a minimum of effort and without substantial alterations to production facilities (e.g. berths, slipways and docks, pre-assembly lines and ancillary capacities) from building one type of ship to another if such conversion is necessitated by structural changes in the flows of sea-borne world trade and the demand for various types of vessels in the world shipbuilding market, is an intrinsic feature of the German shipbuilding industry.

On the other hand, a number of new shipyards have been set up "on green sites" in recent years — especially in Japan — where building sites and assembly lines are designed specifically for the construction of extra large (VLCC and ULCC) vessels.

**Table 1**  
**Development of World Shipbuilding 1954–1973**  
Seagoing Vessels delivered

|      | No.  | GRT        |
|------|------|------------|
| 1954 | 1219 | 5,450,219  |
| 1955 | 1365 | 4,966,755  |
| 1956 | 1687 | 6,291,021  |
| 1957 | 1964 | 8,117,091  |
| 1958 | 1920 | 9,059,267  |
| 1959 | 1793 | 8,696,601  |
| 1960 | 2005 | 8,382,342  |
| 1961 | 1973 | 8,057,542  |
| 1962 | 1882 | 8,182,306  |
| 1963 | 2038 | 9,028,210  |
| 1964 | 2032 | 9,723,825  |
| 1965 | 2202 | 11,763,251 |
| 1966 | 2484 | 14,105,450 |
| 1967 | 2766 | 15,156,857 |
| 1968 | 2740 | 16,844,962 |
| 1969 | 2912 | 18,738,741 |
| 1970 | 2814 | 20,879,977 |
| 1971 | 2917 | 24,387,691 |
| 1972 | 2776 | 26,748,822 |
| 1973 | 2999 | 30,408,930 |

Seen against the economic background of the shipping and shipbuilding industries, the competition-distorting measures in several important shipbuilding countries are assuming increasing importance. There is evidence of an intensification of state support for shipyards in Great Britain, Sweden and Japan for instance.

### Features of World Shipbuilding Market

An assessment of the effects of such competition-distorting measures on the world shipbuilding market requires a consideration of the conditions particular to this market.

The shipbuilding market is a world market: ships can be bought and sold anywhere in the world.

**Table 2**  
**Market Share of the Principal Shipbuilding Countries of World Shipbuilding and Shipbuilding Exports**

| Country     | Countries' market share (in p.c.) |      |                               |      |
|-------------|-----------------------------------|------|-------------------------------|------|
|             | of world shipbuilding             |      | of world shipbuilding exports |      |
|             | 1964                              | 1973 | 1964                          | 1973 |
| Japan       | 39.9                              | 49.7 | 50.1                          | 54.4 |
| Sweden      | 9.9                               | 8.0  | 15.3                          | 9.7  |
| Spain       | 2.1                               | 5.0  | 1.6                           | 5.3  |
| France      | 5.0                               | 3.6  | 4.4                           | 3.5  |
| UK          | 10.1                              | 3.2  | 2.8                           | 1.7  |
| Denmark     | 2.4                               | 2.9  | 2.8                           | 2.7  |
| Norway      | 4.0                               | 3.4  | 1.4                           | 1.7  |
| USA         | 2.7                               | 2.8  | —                             | 0.1  |
| Netherlands | 2.2                               | 2.8  | 3.2                           | 4.3  |
| Germany     | 8.7                               | 6.3  | 10.9                          | 6.0  |

There are no national or regional markets or sectional markets. Other special features of the world shipbuilding market are the following:

☐ There are no customs barriers to protect national shipbuilding industries.

☐ The cost of product transport from producer (shipyard) to buyer (shipping company) is insignificant.

☐ The market transparency is very considerable. A large number of specialized publications and institutes provide market data and ensure that anything happening in the market will soon be generally known.

☐ In many cases the price of bulk cargo ships is calculated on a tonsdeadweight (tdw) basis. If a relatively low tdw price has been agreed anywhere in the world, e.g. in Japan, it is almost impossible to obtain better prices in Europe. The same is true of other terms, regarding payments, credit, coverage of currency and inflation risks, etc. The world shipbuilding market in this respect resembles the international commodity markets.

☐ Owing to these particular features of the world shipbuilding market the direct and indirect subsidies of other shipbuilding countries cause severe market disruptions which are here referred to as distortions of competition. With all its transparency the shipbuilding market therefore does not function in accordance with economic theory as long as this distortion of competition goes on.

### Action to Be Taken

The Association of the German Shipbuilding Industry at the end of last year presented the Federal Government a memorandum concerning the removal of artificial distortion in the world shipbuilding market in which it set out the major economic and technological factors bearing on the world shipbuilding market and indicated the most important causes and the size of the subsidies to be removed. Furthermore, it summed up in the following nine theses what international action should be taken to do away with the severe disruption engendered thereby in the world shipbuilding market.

1. The German shipbuilding industry requests the abolition of all governmental and semi-governmental subsidies on a worldwide basis. The target is to establish a shipbuilding market free of artificially created distortions. The German shipbuilding industry respects all natural competitive differences and does not fear any harm to its position in the world shipbuilding market on account of existing natural competitive differences.

2. Governmental subsidies do not only protect the national industries but will simultaneously create a heavy burden for fair competition in the world-shipping-market. Governmental intervention is even more harmful than customs barriers.

3. The progress achieved by the European Community in reducing subsidies during the past years has currently come to a halt. Further progress is especially endangered if the EC should make the great mistake of replacing the nationalistic policy of its member countries by a European supra-nationalism of its own, applied to shipbuilding.

4. In view thereof, the abolition of all governmental subsidies within the member countries of the EC should take place simultaneously with corresponding actions of all countries of the Western hemisphere. Furthermore, the respective activities of the EC and the OECD should be coordinated in a better way than so far.

5. The German shipbuilding industry is greatly interested in a free world trade. This requires a functioning world monetary system as well as worldwide free exchange of goods, services, money and capital and transport and communication facilities. This also refers to the relationship between the EC and the rest of the Western world.

6. The distortions in competition caused by governmental interventions of countries with a state ruled economy in the future will have to be observed more closely in view of the growing market share of these countries. The problems created by the interventions of these countries should be the subject of future trade talks with the Governments of these countries and solutions should be agreed in bilateral trade arrangements.

7. A higher priority than during the past ten years should be given by all Governments of the Western world to the abolition of all subsidies. First priority should be given to the abolition of these governmental interventions which most of all impair the functional value of the international shipbuilding market to find the most competitive tender:

☐ direct governmental subsidies on shipbuilding costs;

☐ similar governmental fixed price guarantees;

☐ governmental guarantees of fixed rates of interest for shipbuilding credits;

☐ governmental compensation for losses of private and state-owned shipyards;

☐ refunding of tariffs and taxes which are exceeding the actual financial burden.

8. Very often in Europe the shipbuilding industry is located in regions with weak economic structures. The difficulties of the economic situation of these regions may easily develop into problems of social policy. The only exception to the abolition of subsidies should therefore be allowed in those few cases where such difficulties might arise. The emergency measures taken by the Governments should not only depend on whether they may help shipbuilding enterprises to solve their problems. It should also be considered whether these emergency measures create distortions in the world shipbuilding market. Accordingly, assistance should be given on a case to case basis, subject, however, to the approval of international organisations, such as the EC and OECD.
9. The Association of the German Shipbuilding Industry fully realises that the objective to eliminate the distortions in competition can be achieved only by the common efforts of the

Governments involved, on an international basis. We fully recognize that the Government of the Federal Republic of Germany in extensive and time consuming negotiations obtained positive results in some of the targets set. We wish indeed to express our gratitude for these efforts. On our side we would like to encourage and to support our Government to continue intensively in its policy. The Association of the German Shipbuilding Industry will follow the same policy at an international level, where it cooperates within the framework of the Association of West European Shipbuilders (AWES) and EC Shipbuilders Linking Committee as well.

The German shipbuilding industry is well aware that the problem itself cannot be solved except on the international level through inter-governmental negotiations. The German shipbuilding industry is of the opinion that relying on its own strength it will be sufficiently competitive in the world shipbuilding market if the measures by several important shipbuilding countries which cause the distortion of competition are discarded.

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