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## Need for greater competitiveness

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## Worldwide Shipbuilding Crisis

At present surplus capacities of 30 to 40 p.c. are existing on the international shipbuilding market. What are the causes of this worldwide shipbuilding crisis? How can it be overcome?

### Need for Greater Competitiveness

by Dr Wilhelm Nölling, Hamburg \*

**A**fter a period of very strong growth of demand for tanker tonnage in particular and, as a result of this, a large expansion of shipbuilding capacities throughout the world in 1972 to 1974, which was due to universal optimism about the prospects for further growth and to rising freight rates, the shipyards have since last year been faced with a sharp decline in demand. The shipbuilding capacities of all countries together rose in 1975 to the record level of 40 mn grt while their order books of about 82 mn grt in the fourth quarter of 1975 were about 50 mn grt below the high reached in the spring of 1974.

The main cause of this rapid drop in demand was the reluctance of the shipping companies to order new tankers which in turn was due to the slump in oil shipments following the oil crisis. Not only did the demand for tankers come near to total collapse but a number of already placed orders were cancelled.

#### Performance Less Important in Competition

The extension of existing shipbuilding capacities and construction of new shipyards in

hot haste during the preceding years, especially in Japan, had gone far beyond what was needed, with the result that a fundamental imbalance between supply and demand was created in the world shipbuilding market. It is estimated that at least 30 p.c. of the present shipbuilding capacity is surplus to requirements, and it must be assumed that the total world tanker tonnage will in 1977 already be 20 p.c. above the requirements forecast for 1980. This makes it likely that hardly any new orders will be placed in this shipbuilding sector for years to come.

The German shipbuilding industry took a relatively restrained position in the hectic worldwide expansion of shipyard capacities. For the most part it aimed at a wide-spanned production programme. In spite of its sensible attitude the German shipyards are however greatly affected by the structural crisis in the world shipbuilding industry. For one thing German shipyards have also had tanker orders cancelled. For another the competition in the world shipbuilding market has become much more severe because large tanker-building capacities are idle, especially in Japan, and intensive efforts are now being made to secure alternative employment by soliciting

orders for other types of ships. Overt as well as hidden subsidies and cost and currency differentials are helping the Japanese to quote prices far below those of competitors in other countries. The natural competition based on performance is curtailed in the narrowing market to the detriment of the German shipbuilding industry.

#### Importance of the German Shipbuilding Industry

In the face of this situation the German shipyards will not find it easy to keep their order books even approximately full. So much is certain today. The responsible politicians in the four coastal states of the Federal Republic must heed the alarm signal. According to the Ifo Institute, 93.2 p.c. of the workforce in the shipbuilding industry in 1973 were employed here, on the shores of the North Sea and the Baltic, on the Elbe and Weser; 95.3 p.c. of the nominal shipbuilding turnover was recorded in this region.

It is clear to me and my colleagues that in the absence of appropriate countermeasures a major employment crisis must be anticipated in the German shipbuilding industry for 1978, with serious repercussions on the accessory industries which

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are located partly in the interior of the Federal Republic. Many thousands of jobs are thus at risk if the ominous developments in the world shipbuilding market cannot be stopped or at least kept in tolerable limits.

### **No Commitment to Capacity Reductions**

The worldwide overcapacity problem in the shipbuilding industry calls first of all for selective measures on the international plane which must include Japan as the dominant country in the shipbuilding market. The OECD has recognized this fact; in March of this year it issued "General guidelines for government policy on shipbuilding" for the solution of the problem. The guidelines deal in particular with the reduction of shipbuilding capacities, injunctions against subsidies which can interfere with the adjustment process and the need for prices based on fair competition. They have been welcomed by the EC Commission as a first step in the right direction but are not considered adequate. They are not binding on member countries and are in practice merely recommendations to the shipbuilding countries.

The EC Commission desires an agreement within the framework of the OECD or a gentlemen's agreement between the EC and the other major shipbuilding countries in case the OECD guidelines elicit no significant response. A selective reduction of capacities is deemed to be necessary within the Community. The capacity reductions in tanker building should be in direct proportion to the existing capacities of individual countries. According to the Commission's suggestion it should be left to the national authorities to apportion the capacity reductions between the shipbuilding enterprises in the individual member countries.

The proposals — those for the reduction of global shipbuilding capacities by the OECD countries as well as the suggested arrangement for the handling of this reduction in the EC countries — are certainly very sensible. Nevertheless it is doubtful whether all shipbuilding countries will act on the OECD recommendations. Japan in particular would have to put through quite a substantial reduction because its existing tanker capacities are huge. The social and economic problems entailed are virtually incalculable. The Japanese are reportedly considering ways of taking 35 p.c. of their shipbuilding capacities out of operation until 1980 but do not plan to dismantle shipyard installations because they expect the tanker-building business to pick up again in the middle eighties.

The success of the international efforts within the OECD to bring about a worldwide capacity reduction in the shipbuilding industry is thus still quite uncertain. But even if the OECD recommendations were to be enforced, it would not mean the end of all problems. Further measures are needed on the national level in order to minimize the repercussions of the world shipbuilding crisis and the consequent necessity of capacity reductions on the Federal Republic.

### **Recommendations of the Coastal States**

That the German shipyards, which during the recession exercised a stabilizing influence on the labour market, have so far maintained a satisfactory employment level must not be allowed to hide the fact that the described developments may seriously jeopardize the German shipbuilding industry if suitable counter-measures are not taken. These include official flanking measures as was demanded in the resolution of the conference

of ministers and senators in charge of economic affairs and transport in the North German coastal states and Berlin on March 12, 1976.

The situation in the world shipbuilding market was discussed at length at this conference, especially insofar as it affects the shipbuilding industry of the Federal Republic. The ministers affirmed in consonance with the Federal Government that the preservation and improvement of the competitive strength of the German shipyards is a prime task for industry and government "because of its importance for the regional economy, the labour market, the efficiency of the German seaports and merchant fleet and its repercussions on the accessory industries". The following immediate measures were suggested:

- ☐ Intensification of the Federal Government's efforts to create equal preconditions in international competition as regards the factors on which the shipbuilding industry has no influence;
- ☐ Immediate repeal of the disallowance of cumulation of the shipyard aid and assistance to ship-owners under the VIIIth Shipyard Aid Programme;
- ☐ Extension of the aid for shipyards so as to cover more than 60 p.c. of the newly-built tonnage;
- ☐ Creation of prerequisites to offer financing facilities fully commensurate with the OECD guidelines to German shipyards;
- ☐ Provision of additional funds for naval engineering research supplementary to the Third Comprehensive Programme for Marine Research and Technology;
- ☐ Amalgamation and effective support of the three existing experimental shipbuilding institutes in Berlin, Duisburg and Hamburg.

The ministers and senators in charge of economic affairs and

transport regard these recommendations, which are all compatible with the OECD agreements, as suitable means of assisting the German shipbuilding industry in the difficult adjustment process. One of their most important proposals, that to end the disallowance of cumulation of shipyard aid and assistance to ship-owners has in the meantime been put into effect by the Federal Government which has increased the

funds earmarked for this purpose at the same time.

As has been said, official assistance of this kind can only provide flanking support. It is primarily for the shipyards themselves to adapt themselves by structural measures to the new situation in shipbuilding. Hamburg's shipbuilding industry, which is mentioned here as an example, has taken very early action in this direction, and this

has, literally, paid in the present situation. The big shipyards in Hamburg have concentrated on three spheres which have been affected relatively little or not at all by the crisis: repair services, special ships and productions other than shipbuilding. In 1975 shipyards in Hamburg carried out about 51 p.c. of the repair turnover in the Federal Republic. Hamburg is thus the leader in ship repair services in the Federal Republic.

## Adjustments Require Flanking Support by the State

by Werner Fante, Hamburg \*

The world production of seagoing ships amounted in 1975 to 2,726 vessels with a total tonnage of 34,333,859 grt. In the following break-down by types of ships the gross registered tonnage is used as an indicator of the internal shipping space and the weighted gross registered tonnage as an indicator of the hours of work required for the production of the ships and thus of the employment provided for the shipyards.

The break-down shows that tankers and combined bulk carriers for the carriage of crude oil and dry bulk cargoes account for about 40 p.c. of the yards' work on new vessels (see Table 1).

Since the war the sea-borne world trade has increased about twice as fast as the world's industrial production. The high growth rates and the technical innovations in shipping and shipbuilding have resulted in exceptionally high growth rates in shipbuilding production. The shipyard capacities however were enlarged even faster than

corresponded to the growth of demand, and since the early sixties Japan has been playing a very prominent part in this expansion. Compared with a world shipbuilding production of about 9 mn grt in 1963 the capacities have by now increased to some 40 mn grt. According to OECD enquiries in 1975 the world shipbuilding capacities would by 1977/78 rise to 52 mn grt if all the extensions planned at that time were carried out (see Table 2).

The OECD estimate of the 1977/78 world shipbuilding capacities, it should be noted, is based on the assumption of optimum production programmes for the individual shipyards. The structure of requirements has however changed so that this assumption is no longer practicable. Moreover, a number of investment projects have been postponed or cancelled in view of foreseeable developments, a fact which calls for a further reduction of the OECD forecast of shipbuilding capacities. To take a realistic view, the world capacities should therefore be put at something like 40 mn grt. A translation of shipyard ca-

pacities and expected demand into hours of work required indicates a capacity surplus applicable to employment of about 30 to 40 p.c.

### Errors in Japanese Planning

This excess capacity has been caused almost entirely by the strenuous expansion of the Japanese shipyards and their bias towards the building of large tankers. The expansion of the Japanese capacities from about 2 mn grt in 1960 to about 10 mn grt in 1970 was primarily directed at increasing Japan's share of the world shipbuilding market. In the main it took place in the big shipyards. Its effect was to double Japan's share of the world market — from 25 to 50 p.c. The European competitors were hit hardest. As a result of the measures taken simultaneously by the Japanese Government in regard to shipbuilding finance the shipyard expansion led to a distortion of the competitive conditions.

A further expansion of the capacities was started off in 1971 by a recommendation of the Shipping and Shipbuilding Ra-

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