

German shipbuilding industry calls for political initiatives

The German shipbuilding industry had a successful year in 2001, increasing its sales by 14% to €4.8 billion and exports by as much as 27%, its export share thus coming to 64%. At the end of 2001, the workforce in the shipyards totalled close on 27,000 (+3.9%) – not taking into consideration the approx. 4,000 employees of subcontractors working at yards and 70,000 employees at marine equipment suppliers.

The annual report of the Association for Shipbuilding and Ocean Industries (VSM) for 2001, which is being publicized today, describes and analyses developments in the shipbuilding and marine technology markets against the background of overall economic trends and the continuing distortions of free market competition caused particularly by Korea.

Production of oceangoing ships. In 2001, German yards building oceangoing vessels delivered a total of 53 ships worth €3 billion, including exports worth €2.2 billion. Production was well up on previous years. The focus was on ferries and passenger ships, accounting for a 50% share of tonnage. Deliveries included 26 containerships, claiming a 36% share of production.

The high level of deliveries contrasted with only 17 newbuilding orders received, worth close on €500m. As several orders were cancelled, the value of orders on hand fell to €7.8 billion at the end of 2001, compared with €10.6 billion at the end of 2000. This means that production can be expected to remain at the same level for 2002 and 2003, although this will no longer ensure full employment over this period.

Inland waterway vessel construction. Last year, German shipyards for inland waterway vessels delivered 55 ships, worth €47m, and registered incoming orders for 43 units, worth €57m, including 20% for export.

German yards booked some orders for large inland waterway cruise ships, which with a relatively high value accounted for the highest share of business in value terms. On the other hand, the 34 police, work boats and small barges or lighters ordered dominated in terms of unit volume. Only four cargo ships were ordered. These still account for an unsatisfactory share of shipbuilding production, as, despite the good outlook, the inland

shipping market in Germany has still not attracted the level of investment expected.

Naval technology. The development of this important shipbuilding area – accounting for approx. 20% of German shipbuilding on a long-term average – has been characterized by the new requirements made on the German navy. As it can be deployed far from national coasts, the German navy has a key role in view of the intervention option for missions for combined forces that is likely to become more important in the future. The requisite adjustment process has been reflected in procurement by the German navy:

- The class 212 A submarines will become operational from 2003. These are equipped with the new fuel cell technology, providing high underwater endurance.
- The class 124 frigates, intended as task-force command ships, will enter service from autumn 2002.
- The fast patrol boats are being replaced by K 130 class corvettes. The first units are to be operational in 2005.
- The second tender "Frankfurt am Main" will be delivered in 2002.
- The project planning phase is being prepared for a new generation of minehunting systems, MJ 2000.
- A need for special supply vessels has been identified for the deployment of the German armed forces in intervention units. The chief of the armed forces staff has commissioned a study to analyse a capability range for these.

Naval technology requires considerable engineering expertise, which is the strength of the German shipbuilding industry – including both yards and equipment suppliers. Export markets are indispensable for keeping this potential available for the requirements of the German navy, ensuring in periods between national procurement projects the technical progress without which top products cannot be developed. Despite strong rivals in Europe, the German shipbuilding industry is the undisputed world market leader in the frigate, corvette, fast patrol boat, conventional submarine and mine defence segments. This is clearly shown by German companies' success in acquiring the export orders necessary for national technological development. However, this is possible only if the federal government optimally supports these export efforts with its defence policy.

Repairs and conversions. Repair and conversion

turnover has been at €500m–700m annually for some years. This corresponds to a share of 12–15% of total shipbuilding sales in Germany. In 2001, sales totalled €674m, repairs accounting for €98m and conversions €76m. German repair and conversion yards continued to hold the top position in Europe.

In this segment, the focus was on repairs to oceangoing ships, although this has occasionally shifted in recent years owing to some major conversion projects. About 30 yards in Germany convert or repair oceangoing ships. There are also about 40 yards for inland waterway vessels engaging mainly in repairs. This does not include the important market segment of naval repair, although order volume here has been declining for many years because of federal government budgetary restraints.

Equipment suppliers. The German shipbuilding sector is supported by a strong marine equipment industry, enabling yards to focus on their core competences. There are approx. 26,000 employees at shipyards in Germany compared with approx. 70,000 at equipment suppliers. Some 400 companies are regularly active in Germany for shipbuilders. However, the number of equipment suppliers comes to well over 1,000 if we also include firms that do business with shipyards only occasionally providing individual special deliveries or services involving not only typically shipbuilding products. Marine equipment suppliers – which are based in all German federal states, but mainly outside the coastal states like Bavaria and Baden-Württemberg – now have an export share of about 67%.

The idea of a "Maritime Partner Ring" has been promoted by the Association for Shipbuilding and Ocean Industries (VSM) to enhance cooperation between yards, suppliers and service providers when planning and building complex vessels. For the practical realization of this concept, standard contract forms have been developed regulating horizontal and vertical cooperation modalities for the partners involved in shipbuilding. The advantages offered by such standard contracts have meanwhile become clear in several projects: cost reductions for all participants via a better coordination of capacities, avoiding redundant work and interface problems and achieving shorter development times with generally higher technological expertise via joint planning.

The increased use of the new information and communication media will further improve cooperation

between shipyards and suppliers. Both sides are also developing concepts for linking the procurement of shipyards with the distribution process of suppliers via e-commerce applications.

Marine technology. Non-shipbuilding marine technology, accounting for annual sales of over €3 billion, is an important area of the German maritime sector. However, the technical and economic achievements of this area are less appreciated in public, as marine technology encompasses a wide range of industrial activities – including offshore and underwater technology, oceanography technology, hydrography and maritime environmental protection.

At present, about two-thirds of marine technology production is accounted for by offshore technology and coastal and hydraulic engineering. In future, the sea-based use of renewable energy sources (offshore wind farms) will increasingly contribute to sales in the marine technology area, forecast to rise to €5.8–7.7 billion in 2005. To realize these potentials, forms of cooperation and networking within marine technology (Schleswig-Holstein Marine Technology Competence Network - KMT) and with shipbuilding research (Centre for Maritime Technologies - CMT) are being created and expanded.

German suppliers of shipbuilding and marine technology provide internationally top products in key areas of the maritime sector. This expertise in key high-tech markets is based on intensive R&D and engineering training at a high specialist level geared to meet requirements.

The German maritime industry uses its R&D capabilities to expand its know-how as well as increase its appeal in competing for the increasingly scarce young graduates. To support it effectively, the state must also step up its efforts in both areas (efficient promotion of research and adequate investment in the maritime training sector).

World shipbuilding. Thanks to strong demand in previous years, shipyards also achieved good capacity utilization in 2001. In 2001, the world shipbuilding industry almost matched its record result for the previous year, delivering 1,553 vessels totalling 31.3m gt/20.2m cgt.

The slowdown of the global economy in the second half of 2001 has thus so far had only a limited impact on

world shipbuilding production. Even the slump in demand in the second half of the year did not cause any great difficulties. However, the outlook for the shipbuilding industry has deteriorated, as indicated by requests for later delivery dates, order cancellations, non-realization of options, falling newbuilding prices and fewer newbuilding inquiries. The already fierce competition will increase, not least because of further capacity increases.

However, newbuilding orders in 2001 initially remained at a high level. The slowdown in the economy generally and the shipping sector dampened newbuilding demand only in the second half of the year. A total of 1,438 ships with 36.5m gt/23.3m cgt were ordered in 2001 worldwide. The year's production was thus again exceeded, and orders on hand increased yet again.

At the end of the year, shipyards had 2,695 newbuilding orders totalling 75.8m gt/48.6m cgt on their order books. On average, they thus have sufficient work to keep them busy until into 2004.

Newbuilding prices for most standard types of vessel fell by over 10% between December 2000 and December 2001. The containership market was the hardest hit. Here the competitive pressure from the Far East was particularly noticeable. Prices for ships of 1,100 TEU or 3,500 TEU capacity slumped by over 13%.

The fall in prices was caused mainly by the price undercutting tactics of Korean shipyards. The EU Commission has shown that the prices offered by Korean yards do not cover their costs. Korean shipyards that had gone bankrupt have been put back on their feet with state support and continue to be active in the market without any capacity reductions whatsoever. In view of such unfair practices, German and European shipbuilding companies have almost no chance on the world market without government assistance. Given the rapidly dwindling orders on hand, time is running short for policymakers.

It is already becoming apparent that not all shipyards, particularly in Europe, will survive this ruinous competition. The imbalance between supply and demand will become even crasser. The European shipyard association AWES expects average annual newbuilding demand to come to 18.3m cgt up to 2015. On the other hand, the newbuilding capacities of the shipbuilding

countries will rise owing to productivity increases at yards and the creation or expansion of production facilities. Global newbuilding capacity is currently 23m cgt. Considerable capacity growth is expected at Korean and Chinese yards.

Shipbuilding policy. Since the first maritime conference held in Emden in 2000, the main shipbuilding policy issues have been analysed and followed up in various discussions initiated by the maritime coordinator, undersecretary Dr. Gerlach. The focus has been on forms of cooperation, R&D as well as competition and support issues, which are meanwhile largely handled and decided on in the superior bodies of the EU and the OECD.

The coordinator reported on progress in various political areas at the second national maritime conference held in Rostock-Warnemünde on November 6th 2001. This involved in particular achieving a more flexible arrangement in some respects concerning the production restrictions for yards in Mecklenburg-West Pomerania. However, in view of the continuing distortions of free-market competition by Korea and the decline in orders in the wake of the slowdown and overcapacities, the need for action is obviously becoming more urgent. In particular the incomprehensible wrangling within the EU Commission concerning bringing an action against Korea before the WTO and the introduction of limited counter-measures to protect European shipyards against Korean dumping prices have made an effective German response necessary. The speaker of the board of the German Shipbuilding and Ocean Industries Association (VSM), Dr. Werner Schöttelndreyer, has pointed this out in his foreword entitled "Berlin must act" to the annual report for 2001 and meanwhile presented specific ideas to the federal government and the maritime coordinator.

*For further details, please refer to our annual report for 2001, available at: <http://www.vsm.de>
We will also gladly mail you the report.*

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