

Capacity utilization for German merchant shipbuilding higher in 2003, but still not secured for German naval shipbuilding in the long term

The strong growth in demand in merchant ship newbuilding, particularly in the containership market, and the granting of subsidies by the German federal government and states to counter the South Korean subsidies policy enabled German **shipyards building oceangoing vessels** to book significant orders securing their capacity utilization in 2003. Thanks to the incoming orders worth €3.6 billion, yards could extend their employment by more than a year. Production was stable in 2003 with deliveries worth €2.8 billion.

In **inland waterway vessel construction**, the focus continues to be on high-quality passenger ships, the decline in freight transport in the inland shipping sector having generated little newbuilding demand. Shipyards building inland waterway vessels delivered craft worth €87m in 2003.

The medium-term prospects for German **naval shipbuilding** are deteriorating. Owing to the lack of follow-on programmes for the German Navy – the most important customer of German naval shipbuilders – sales of German naval shipyards, hitherto €600m, will, judging by current planning, decline significantly in the next few years. New German Navy projects will remain under budgetary pressure for years ahead. Because of the focus on major air force procurement activities, there is the threat of an erosion process occurring in the naval technology area.

In 2000, sales achieved by all shipbuilding companies (for oceangoing, inland waterway and naval vessels as well as yachtbuilders incl. repair/conversion) came to €4.3 billion, down on the previous year's high level of €5.2 billion. The main reason for this apparent decline was an accumulation of payment dates for orders in 2002. As a result of adjustment and rationalization measures, the overall workforce at yards declined from 25,700 to 24,500. The shipbuilding industry, including subcontractors at yards and marine equipment suppliers, has approx. 100,000 employees.

Merchant ship newbuildings

In 2003, 17 shipyards delivered 62 merchant vessel newbuildings totalling 1m gt/0.9m cgt (gt/gross tonnage weighted with labour input involved). These ships had an order value of €2.8 billion. Foreign customers claimed a particularly high share of the total with €2.3 billion or 83% of production in 2003. Containerships

accounted for a cgt share of 54.4% and the largest share of deliveries, as in the previous year. Other very important segments for German yards are ferry and passenger ships, mega yachts and small cruise ships, including even cruise ships of 90,000 gt. These vessels accounted for 26.8% of deliveries last year.

With the significant growth in demand in world shipbuilding in the second half of 2003, German shipyards booked 102 newbuilding orders totalling 1.9m gt/1.6m cgt, worth €3.6 billion, for the year as a whole. Another reason for this good result was the temporary defence measures decided on by the EU and the German federal government and states to counter the cut-throat competition from South Korea. As German customers placed a particularly high number of containership orders, the domestic share of order volume at 43.6% was much higher than for production. The 87 containership orders totalling 1.3m cgt accounted for nearly 80% of all German incoming orders.

Taking as basis planned delivery dates for orders, German shipyards' capacity utilization for 2004 and into 2005 is at a high level. They booked further orders, including some significant projects, in the first quarter of 2004. The yards are thus confident that in the current market situation and given appropriate parameters they can also obtain work for 2005 and 2006.

Inland waterway vessel construction

In Germany, inland waterway vessels are built by approx. 40 companies with about 1,000 employees and annual sales of approx. €150m. The largest share of sales is accounted for by inland waterway vessel newbuildings. German shipyards delivered a total of 48 inland waterway vessels worth €87m (previous year: €72m) in 2003. This high production value was achieved mainly by the increase in the number of completed passenger ships to 13 units, worth €64m. The structural change apparent for some years has thus continued. In view of the weak investment capabilities in inland shipping combined with the entry into the market of competitors from countries with low labour costs, German yards building inland waterway craft have increasingly specialized in the construction of top-quality vessels such as passenger ships (particularly inland waterway cruise ships), ferries and vessels for public authorities as well as special-purpose units. They received orders for 34 vessels worth €71m (compared with €109m the previous year), the main share being accounted for by 10 passenger ships, worth €62m.

Naval shipbuilding

While in other EU countries such as France, Italy and the UK the employment of shipyards active in naval shipbuilding is secured by comprehensive naval procurement programmes with a clear industrial policy orientation, German naval shipbuilders face employment problems because German Navy procurement projects are ending without new orders providing adequate employment. Four type 212A submarines with propulsion systems independent of the external air are currently under construction at HDW and Nordseewerke Emden. The

first vessel is due to be delivered soon and the second was named in December, so that this project is providing only limited employment. Similarly, the class 124 frigate programme involving the shared production of three ships is drawing to a close. The type ship "Sachsen" has already been handed over, the sea trials for the "Hamburg" began in January, and the "Hessen" will be delivered in 2005. The option for a fourth frigate was not realized. The defence research ship "Planet" will also be delivered in summer 2004, which is when the first batch of five class 130 corvettes is due to enter production.

Although these ship types all conform with the new concept of the federal defence ministry, focusing on preparing for missions for conflict avoidance and crisis management with intervention, stabilization and support forces, further procurement projects will be subject to budgetary constraints for years ahead. The F 125 as replacement for the obsolescent units of the "Bremen" class has not passed the preparation phase, and finance has not yet been secured for additional class 212A submarines. The MJ 2000 minehunter programme also faces financial problems. The A&R SWATH platform is currently being tested by the German Navy.

It seems to be essential to formulate a balanced medium- to long-term procurement programme for the armed forces enabling industry to orient its capacities, investment and R&D planning. Without contracts, Germany will lose its leadership for submarines, frigates, corvettes and minecraft. Core competences can be secured only with orders. The federal government must thus define the core capabilities in defence technology that it requires in Germany.

Repairs and conversions

Repair and conversion orders continue to play an important role in the product range of German shipyards. Sales for repairs and conversions came to €553m in 2003, again at the relatively stable average level of previous years, corresponding to a 12-15% share of total shipbuilding sales in Germany. These sales are generated by over 20 German shipyards that convert and repair seagoing ships, as well as about 30 shipyards for inland waterway vessels.

German repair yards continue to hold the top position in Europe. According to a survey carried out by the European shipbuilders' association AWES, German yards claim a share of about 25% of the repair market, well ahead of the UK and the Netherlands. Apart from these countries, German yards' main rivals are companies from Poland and the Baltic states, particularly for projects involving a great deal of steelwork.

Main equipment suppliers

The boom in global newbuilding demand has enabled German marine equipment suppliers, which are strongly export-oriented, to book significantly more orders. They generate about two-thirds of their sales abroad. However, the German shipbuilding industry continues to be German suppliers' most important

sales market, accounting for about a third of their production. The home market is also strategically important for German suppliers because it has high technical quality standards, provides favourable prerequisites for R&D and innovations and offers close cooperation possibilities with the shipyards. This also strengthens suppliers' positions in export markets. German component makers have the advantages of "playing on home ground" particularly with respect to the high containership orders placed by German shipping companies with Far Eastern shipyards. German equipment is preferred owing to the close relationship between shipping companies and suppliers and also because of its reliability and ease of maintenance.

Despite the upturn in demand particularly in Korea, Japan and China, competition in the market and pressure on prices are increasing noticeably. Japan has long had efficient marine equipment suppliers, while South Korea and now also China are quickly building up their component industries. The shipyards in those countries are increasingly striving – frequently with state subsidies in the context of national industrial policies – to achieve a high local content of domestic equipment for export newbuildings. A negative factor in Far Eastern sales markets was also the exchange rates trends. There has been a special development since the end of 2003 for shipbuilding steel and steel products from suppliers, China's high steel requirements causing shortages and high price increases.

Marine equipment suppliers are pursuing various strategies for improving their competitive positions in foreign markets. Although almost half of the companies still produce exclusively in Germany, they have increased their share of production abroad in recent years to avoid the high production costs in Germany, as well as strengthen their presence in foreign markets. German suppliers are also attempting to secure markets for themselves by cooperating with local suppliers, involving e.g. joint ventures or production under licence. German marine equipment suppliers with their approx. 70,000 employees achieve total sales of approx. €8 billion.

Maritime technology

Maritime technology represents a wide interdisciplinary area encompassing companies and research institutions focusing on industrial offshore technology, the use of renewable energy sources, hydrography, aquaculture and fisheries. There are also numerous points of contact and links with industries and activities not primarily connected with the maritime sector. This was impressively demonstrated by the third National Maritime Conference held in Lübeck in May 2003. This new holistic approach to promoting the sustained development of maritime technology has meanwhile been institutionalized. In a concerted effort on the part of industry, science, public authorities and political bodies, German maritime technology associations form a "strategic alliance for maritime technology" to identify opportunities for German suppliers and realize projects.

Further details on the world shipbuilding market are given in our annual report for 2003. You can request this from us or find it at our website: <http://www.vsm.de>

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