



INFORMATION

High demand secures employment for merchant shipbuilding in Germany, although the outlook for naval shipbuilding remains uncertain

The continuing strong demand for merchant ship newbuildings, particularly in the container-ship market, enabled German **shipyards building oceangoing vessels** to win significant orders in 2004 to secure their employment. They received incoming orders worth €4.1 billion, helping them to extend their capacity utilization by more than a year. A total of 61 newbuildings, worth €2.3 billion, were completed, production thus being slightly down on 2003.

Shipyards building inland waterway vessels also continued to develop satisfactorily. However, the orders received were mainly for top-quality passenger ships, while demand for cargo vessels remained low. Yards building inland waterway craft delivered a total of 51 newbuildings, worth €91m, in 2004.

Naval shipbuilders did not receive any newbuilding orders in 2004. The relevant administrative bodies and naval shipbuilders are together looking for ways to overcome the threatening lack of employment. It is being considered handling planned projects ahead of schedule. The merger of the ThyssenKrupp shipyards with HDW Group in 2004 was an important milestone for the naval shipbuilding industry. This will improve the international competitiveness of German shipyards and strengthen Germany's position for mergers that are being contemplated at European level.

Sales of all yards (building oceangoing ships, inland waterway vessels and naval ships, as well as boats and yachts incl. repair/conversion projects) rose by 5.1% to €4.5 billion, well up on the low result for the previous year. Despite good employment, restructuring programmes, productivity improvements and capacity adjustments caused the overall workforce at German shipyards to decline from 24,500 to 23,300 employees. Including temporary staff at shipyards and marine equipment suppliers, there are approx. 100,000 employees in the German shipbuilding industry.

Merchant shipbuilding

An overall 61 merchant ship newbuildings totalling 0.9m gt/0.9 cgt (compensated gross tonnage = gt/gross tonnage weighted with shipbuilding labour input), worth €2.3 billion, were delivered by 15 German shipyards in 2004. Foreign customers accounted for €1.5 billion worth of deliveries or approx. two-thirds of production. Containerships claimed a cgt share of 62% and thus the largest proportion of deliveries, as in the previous year. Ferries and passenger ships, including mega yachts and smaller passenger ships as well as cruise vessels of up to 90,000 gt, are also important in the product range of German shipyards, accounting for 23% of deliveries in 2004.

Demand for newbuildings continued to be high last year, German shipyards booking new orders totalling 1.7m gt/1.5m cgt, worth €4.1 billion. Positive factors were the relatively short delivery times offered by German shipyards, their ship designs meeting the highest



quality standards and the provision of temporary defensive measures via the federal government and coastal states permitted by the EU to counter distortions of free market competition by South Korean shipyards. Foreign demand in particular increased, accounting for €2.9 billion worth of orders or a share of 72% of the total (2003: 56.4%). The 60 containerhips ordered totalling 0.9m cgt represented 62% of total orders.

Orders on hand increased again thanks to the ongoing growth in orders with continuous production. Orders on hand at the end of 2004 totalled 147 with 3.0m gt/2.8m cgt, ensuring the capacity utilization of German shipyards for 2005 at the previous year's level. At the end of 2004/beginning of 2005, there were still gaps in employment for 2006. Even if there are fortunately already orders for delivery for 2007 and 2008, further orders need to be received in the next few months to maintain production at its current level.

Inland waterway vessels

German shipyards building inland waterway craft delivered 51 newbuildings, worth €93m, in 2004. Passenger ships and ferries accounted for approx. 85% of newbuilding deliveries. The growth in cruise business on European rivers has become increasingly important for these yards building inland waterway vessels. Companies active in this market segment meanwhile also include yards that do not belong to traditional builders of inland waterway vessels but are also partially involved in oceangoing ship newbuilding and repair business.

Incoming orders for inland waterway vessels again exceeded deliveries in 2004. Orders for 58 ships were received, up nearly 40% on 2003. Passenger ships and ferries accounted for 74% of the total value of orders.

German shipyards continue to find it very difficult to obtain orders for inland cargo ships. The few projects in the market go mainly to yards in countries with lower labour costs in Eastern and Southern Europe, as well as China. German yards' overall orders on hand rose to 58 vessels, worth €110m, at the end of 2004.

Naval shipbuilding

The situation in naval shipbuilding in Germany differs considerably from that in merchant shipbuilding. Far fewer national naval orders are placed than in France, Italy or the UK, which have larger fleets and regard supporting naval shipbuilding as essential for ensuring their defence capabilities. However, German shipyards also need national naval orders in order to maintain a basic capacity utilization for securing their core capabilities. German naval shipbuilders have to acquire further employment via export orders. They succeeded to a very large extent in achieving this in recent years without thereby being able to offset losses in national orders. It was evident in 2004 that the government is prepared to share some responsibility for the national naval shipbuilding sector. To overcome the threatening lack of orders, it is being considered handling planned projects (class 125 frigate and the 2nd batch of the class 212A submarine) earlier than originally envisaged.



Repairs and conversions

Repair and conversion orders continue to represent an important part of German shipyards' product range. Sales in this segment in 2004 came to €620m, well up on €553m in 2003. Repairs and conversions account for close on 14% of German shipyards' total sales.

German repair yards continue to hold a top position in Europe. According to surveys carried out by the European shipbuilding association CESA, German yards claim an approx. 25% share of the market and are thus well ahead of rivals in the UK, Netherlands and Spain. Apart from yards in these countries, German shipyards' main competitors in repair business are companies in Poland and the Baltic states, particularly for projects involving a great deal of steelwork, as well as sandblasting and painting.

Marine equipment suppliers

In 2004, German marine equipment suppliers' traditionally high export orientation also helped them benefit from the high newbuilding demand in the world shipbuilding market, particularly in the Far East, and increase their sales. Despite the upswing, competitive pressure remains high in the marine equipment area. It results among others from cost increases and supply bottlenecks for raw materials such as steel and energy as well as for preliminary products. The high demand particularly for steel led to a doubling of basic prices and some delivery problems in 2004. Moreover, bigger shipyards in the Far East have a considerable market power and can exert pressure on their suppliers. This also applies for the position of Far Eastern makers of products under licence when negotiating fees with the licensors. Another negative factor in 2004 was the further increase in the exchange rate of the euro against the US dollar, making German and European suppliers' products and services more expensive.

Competition was also increasingly hindered by the activities of the governments in South Korea, China and other South-East Asian shipbuilding countries in promoting the establishment and expansion of their own equipment suppliers. This strategy of increasing local content in ship newbuildings is intended to encourage local industry to the detriment of imports. Numerous German companies have responded by stepping up their market presence in the sales and service areas and established local production plants in other shipbuilding countries.

German marine equipment suppliers competing in the global marketplace benefit from their close ties with German shipowners. These prefer German components particularly for their numerous containerships built in South Korea and China and insist on their installation when ordering vessels from yards in the Far East.

The about 400 German marine equipment suppliers with around 70,000 employees achieved overall sales of approx. €8 billion in 2004.

Marine technology

There were numerous initiatives for pooling the various areas of marine technology in 2004. Such a holistic approach is also to be the focus of the future maritime policy of the



EU currently being prepared at various levels in the Commission. The aim is initially to produce a green book documenting the significance of marine technology for the EU and presenting ways of improving the competitiveness of companies in this field.

The industrial dialogue in the context of the "strategic alliance for marine technology" was strengthened in 2004, with the result that marine technology companies could present their position in detail in a special workshop at the Fourth National Maritime Conference in Bremen.

These efforts aim to develop new markets for the maritime sector via a more efficient promotion of research at national level.

Further details on the world shipbuilding market are given in our annual report for 2004. You can request this from us or find it at our website: <http://www.vsm.de>

If you have any queries, please contact:

Verband für Schiffbau und Meerestechnik e. V.
(German Shipbuilding and Ocean Industries Association)
An der Alster 1
20099 Hamburg
Tel: (040) 280152-0
Fax: (040) 280152-30
E-mail: info@vsm.de

May 4th 2005