

Alarming figures call for effective action

Employment in Germany's merchant ship newbuilding threatens to fall by over 10% after having maintained a generally constant level with increasing production over the previous five years. A reversal of the employment trend feared last year looks certain.

While demand for standard vessels was generally robust worldwide, European including German shipyards booked scarcely any orders in the last two years, their production only benefiting from the order boom in 2000.

Although incoming orders in November/December 2002 were encouraging, they did not suffice to lift annual incoming orders to a satisfactory level in 2002. Orders on hand therefore fell on average, providing sufficient work only until mid-2004 and forcing yards to cut back on staff.

The reason for these alarming developments is the decline in orders in Germany for containerships, ferries and passenger vessels. Among the deliveries for 2002, these two market segments accounted for almost 90% of overall production, thus representing the core area of the German market segments.

German shipbuilders suffered from a general decline in demand in the containership market, and because of the continued dumping prices charged by South Korean shipyards and the strength of the Euro any orders went to those yards.

In the ferry and passenger ship segment, the terrorist attacks on the World Trade Center in New York have badly affected the tourist industry. Owing to the decline in tourism and the advent of take-over battles among the major passenger vessel shipping lines, only three orders have been placed in this segment. The tourist industry has also been unsettled by the Iraq conflict and the respiratory virus SARS that has been spreading for some weeks.

What needs to be done to improve the situation? The European shipbuilding association CESA has responded with its "LeaderSHIP 2015" initiative. This project, tackled along with the EU Commission, aims to ensure the optimal harmonization of European parameters in relevant areas such as R&D, financing and guarantee systems in the next few months. This means stimulating growth in Europe via restructuring. Similar efforts are also called for in the national context, where streamlining is necessary particularly in the areas of R&D and innovation as well as export financing. The sector has to be promoted via economic policy initiatives instead of being hampered by administrative hurdles. It must be clearly stated that this is a call not for more subsidies, but for the necessity of fully implementing measures determined in Brussels also nationally, thus providing planning security. Reducing subsidies at present will not reverse employment trends. It is high time for a significant change in labour market parameters so that companies are not weakened when they trim their workforces in response to a difficult demand situation. The federal economics and labour minister must quickly implement his proposed reform project.

The self-confident German shipbuilding industry continues to trust in its strengths: technology leadership, flexibility and ability to keep to deadlines. It should be duly

promoted by effective, future-oriented policy measures on the part of the German parliament and government.

Yards in the Far East continuing to distort the world shipbuilding market

In 2002, the world shipbuilding industry maintained its high production level for the previous two years in merchant vessel newbuilding, even exceeding it somewhat, delivering over 1,500 vessels totalling 33.4m gt/21.4m cgt.

Japan and South Korea continued their neck-and-neck race, each claiming market shares of about 31%, while Chinese yards expanded their share to over 7%. The Germans maintained their fourth position in the global shipbuilding sector with a share of 5%, making them the leaders in Europe. EU countries' share of the global market dwindled to 17%.

The most important segment was containerships, accounting for 5m cgt or 23% of the overall market, the containership fleet expanding by over 10%.

Because of the cyclical recovery in shipping and an increase in newbuilding demand in the fourth quarter of the year, the decline in incoming orders compared with 2001 was lower than anticipated on the basis of the low orders booked in the first half. Overall about 1,500 orders totalling 30.6m gt/20.5m cgt were registered. Although this was down on the previous two years, it corresponded approximately to annual production. Demand was particularly high for special-purpose tankers (30% of orders) and bulk carriers (23%).

Most orders were booked by Japanese shipyards, accounting for 7.5m cgt and slightly increasing their share of the total to 37%. South Korean yards came second with a somewhat lower share of 28% (5.7m cgt). In the first quarter of 2003, however, the South Koreans reported a considerable increase in incoming orders, probably more than bridging the gap to the Japanese competition.

On the other hand, there was a significant decline in orders at European shipyards. EU countries' share again fell drastically, tumbling from 13% in 2001 to only 7%. They were thus overtaken by China, which boosted its share to 13%. German yards achieved a share of 2%, thus also claiming fourth position among the shipbuilding countries.

Last year was characterized by extremely low prices due to offers not covering costs, particularly from South Korean shipyards, higher overcapacities resulting from the shipyard expansions in South Korea and China and exchange rate fluctuations because of the weaker US dollar, the key currency for shipbuilding and shipping.

South Korean yards are continuing with their low-price strategy, as confirmed again by the new (7th) EU report on the situation in the world shipbuilding sector. The analysis of current orders in South Korea shows that e.g. prices for product/chemical tankers are up to 27% below "normal" cost estimates. There has thus been no let-up in South Korean yards' ruthless price-cutting practices.

German shipyards uncertain of fully utilizing their capacities in the future

German shipyards building oceangoing vessels were well employed last year thanks to their orders on hand. They delivered numerous merchant and naval vessels as well as boats and yachts. Overall sales including repairs, conversions and other activities of all German shipbuilding companies surged to €5.3 billion (previous year: €4.7 billion).

Despite this gratifying increase in sales, companies' profitability did not improve because of the continued heavy pressure on prices and distortions of free market competition, particularly on the part of shipyards in the Far East. Two medium-sized German shipbuilders had to file for insolvency, while other yards announced reductions in their newbuilding capacities.

German shipyards were thus unable to maintain their staff levels, which had remained generally stable and even increased slightly in previous years. Lack of adequate follow-on orders has dimmed yards' employment prospects, forcing some companies to cut back on their subcontractors and reduce their own workforces. This downsizing process was accentuated by investments for improving productivity.

Merchant ship newbuildings completed last year at German yards, accounting for over 60% of total sales, were mainly orders booked in 2000, when in the booming shipping market numerous orders were placed to take advantage of the European shipbuilding subsidy programme that was coming to an end.

Thanks to their technical know-how and the expertise of their personnel, German shipyards performed well in the market in 2002, again impressively demonstrating their capabilities with a large number of remarkable deliveries: as many as 68 oceangoing vessels totalling 1.3m gt/1.2m cgt, worth over €3.4 billion.

Most units delivered were containerships, comprising almost 50% of production. In recent years, German yards have also completed a higher number of sophisticated ferry and passenger ship projects, for which they have been able to make the most of their system expertise and partnerships with efficient German marine equipment suppliers. These vessels accounted for almost 40% of total German deliveries in 2002. The other newbuildings included an LPG tanker and two double-hulled tankers, exceeding the highest safety and environmental protection requirements, as well as four cost-efficient Ro-Ro vessels featuring optimized technology for foreign customers.

These impressive deliveries contrasted with a significant decline in incoming orders, which will not enable yards to utilize their capacities fully in the years ahead.

At the end of 2000, the EU Commission unilaterally stopped all national subsidy regulations for the European shipbuilding industry despite the continuing distortions of free market competition on the part of South Korea, as negotiations with that country were expected to be successful. Because of the EU's decision and the ongoing price-dumping strategy in the Far East, German yards booked only a few orders in 2001 and the first quarters of 2002. It was only after the EU responded to South Korea's uncompromising stance in October 2002 by introducing temporary defensive measures

for specific types of vessel that German shipbuilding companies could win additional orders last year.

However, the 50 newbuilding orders totalling 0.8m gt/0.7m cgt, worth €1.7 billion, booked by German yards over 2002 as a whole correspond to only about 50% of annual production. By the end of the year, orders on hand of the approx. 20 German yards building oceangoing vessels came to 119 contracts totalling 1.9m gt/cgt, worth €5.5 billion.

There is only one strategy for countering this unsatisfactory trend:

- Further strengthening the industry's technological basis by stepping up R&D efforts on the basis of close cooperation among shipyards and suppliers
- Improving and guaranteeing national and international political parameters via the federal government and the EU
- Achieving fair market conditions

Inland waterway vessel builders expanding into new markets

German shipyards building inland waterway vessels performed well in 2002, delivering 45 newbuildings worth €72m, thereby considerably increasing their sales and achieving a level of employment not reached for many years.

Following the slump in the market for inland waterway cargo vessels, several German yards building inland waterway cruise ships and other passenger vessels have found new sophisticated market niches where their expertise outweighs other countries' advantage of lower labour costs. Last year, the yards completed only five cargo ship newbuildings (7,000 t), but on the other hand 14 high-quality passenger ships and ferries as well as 26 special-purpose units, such as port vessels, tugs, vessels for public authorities and survey ships. The export share was 12%.

The outlook for the market segment of inland waterway craft for passenger transport, which is equipment-intensive, is also very promising, demand for newbuildings being stimulated by modernization and increased ship safety requirements. New demand is also being created by the increasing passenger and freight transport services throughout Europe.

However, the German Shipbuilding and Ocean Industries Association (VSM) points out that the outlook for a sustained recovery in inland waterway vessel construction in Germany is not unqualifiedly bright: "The cost advantages – particularly in labour costs – in East European countries such as Rumania and Ukraine are just too great. It has now become usual for shipowners and shipyards to order hulls from Central and East European countries for fitting out and completing at their own yards."

Further details on the development of the German shipbuilding and maritime industries are given in the annual report for 2002 of the German Shipbuilding and Ocean Industries Association (VSM). You can request this from the VSM or find it at our website: <http://www.vsm.de>

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