ITEM 5A: REVISED REPORT ON THE IMBALANCES IN GLOBAL SHIPBUILDING INDUSTRY

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Outline

- Background
- Comments from members on the previous versions of report on supply and demand
- Structure of the revised report
- Revised parts in specific sections

Background

- At the last session of the WP6 meeting, delegates agreed to provide comments by written procedure.
- Croatia, EU, Japan, and Korea provided comments on the report
- Secretariat prepared a revised version of the report to discuss again the issue of declassification of the revised report

Main points of comments from members

- The report should include the methodology and background of the analysis
- The report should take into account market factors and industry characteristics
- Country capacity calculations should be carefully double-checked by using other sources
- Adding/deleting specific paragraphs in the report was also suggested

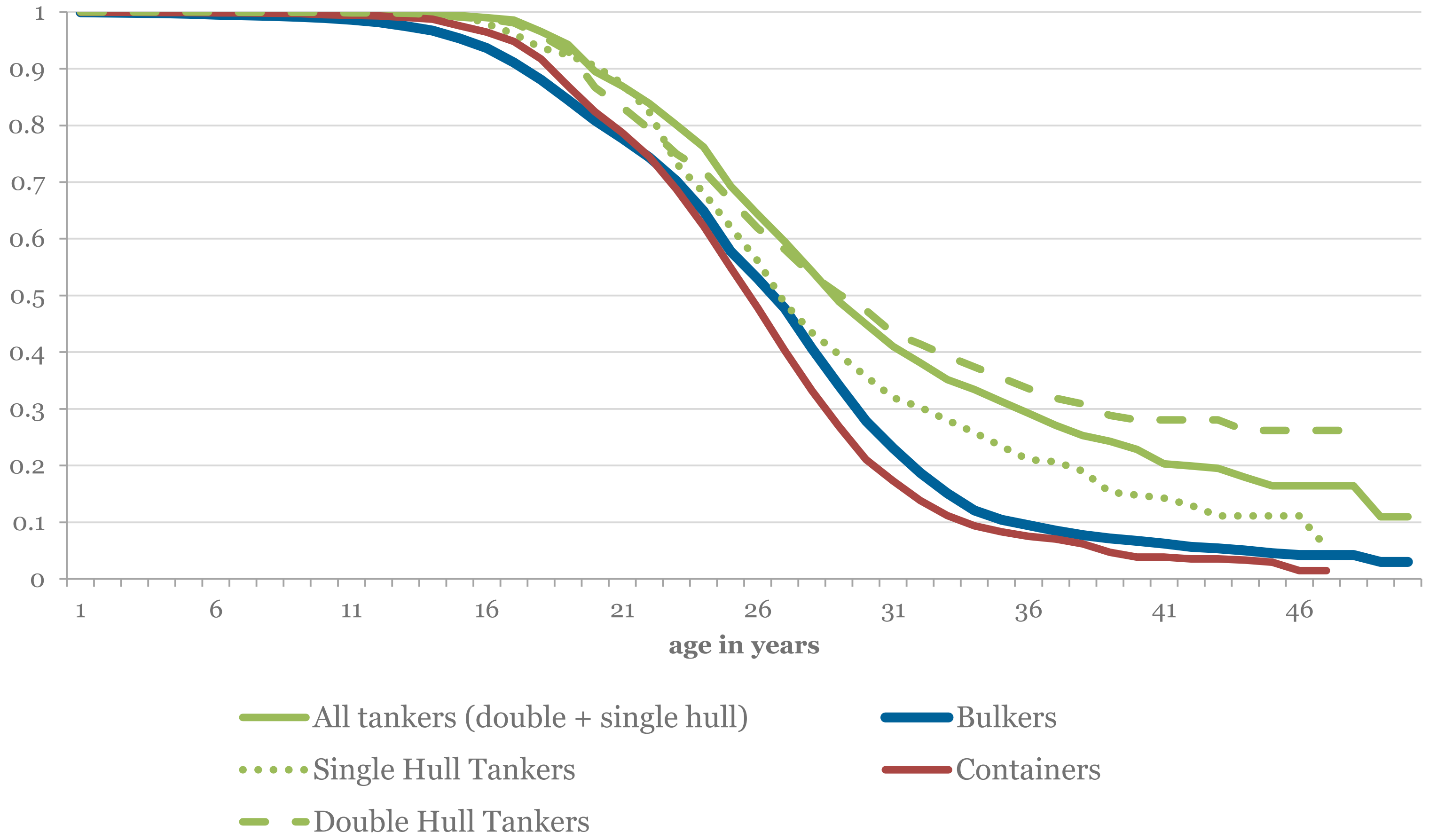
Structure of the revised report

1. Introduction
2. Magnitude of the imbalances in the shipbuilding industry
3. Consequences of oversupply and overcapacity
4. Characteristics and structure of the global shipbuilding industry
5. Potential causes for imbalances between supply and demand in industry sectors
6. Yard dynamics: activity, exit, entry
7. Government policies affecting capacity
8. Implication from the analysis

Revised parts in specific sections

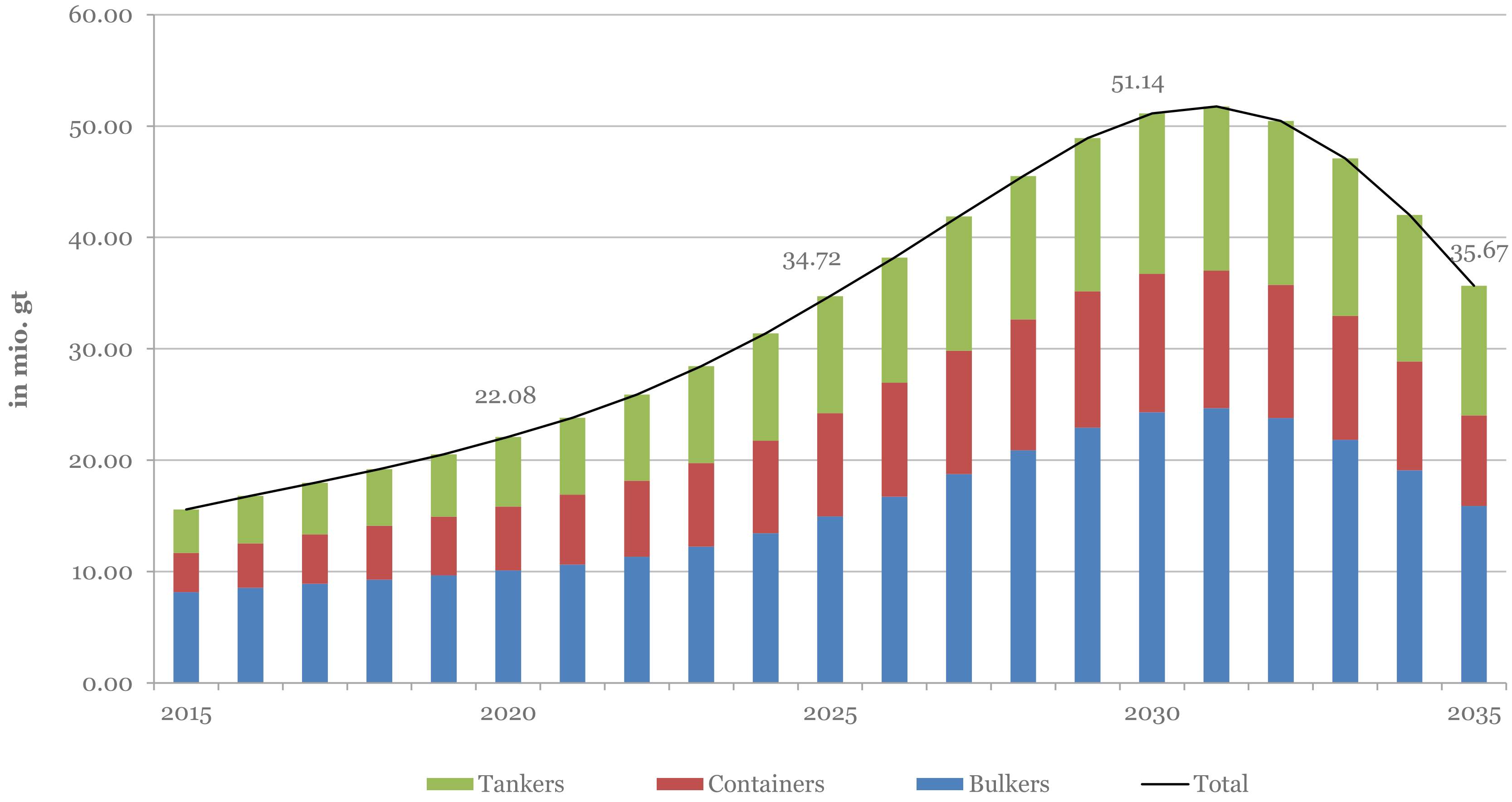
- Analysis on the survival of ships
- Countries' capacity calculations
- Support measures to demand side
- Analysis on contract related production aid taken in EU countries
- Analysis on restructuring case of Swedish shipbuilding industry

Analysis of ships survival rates



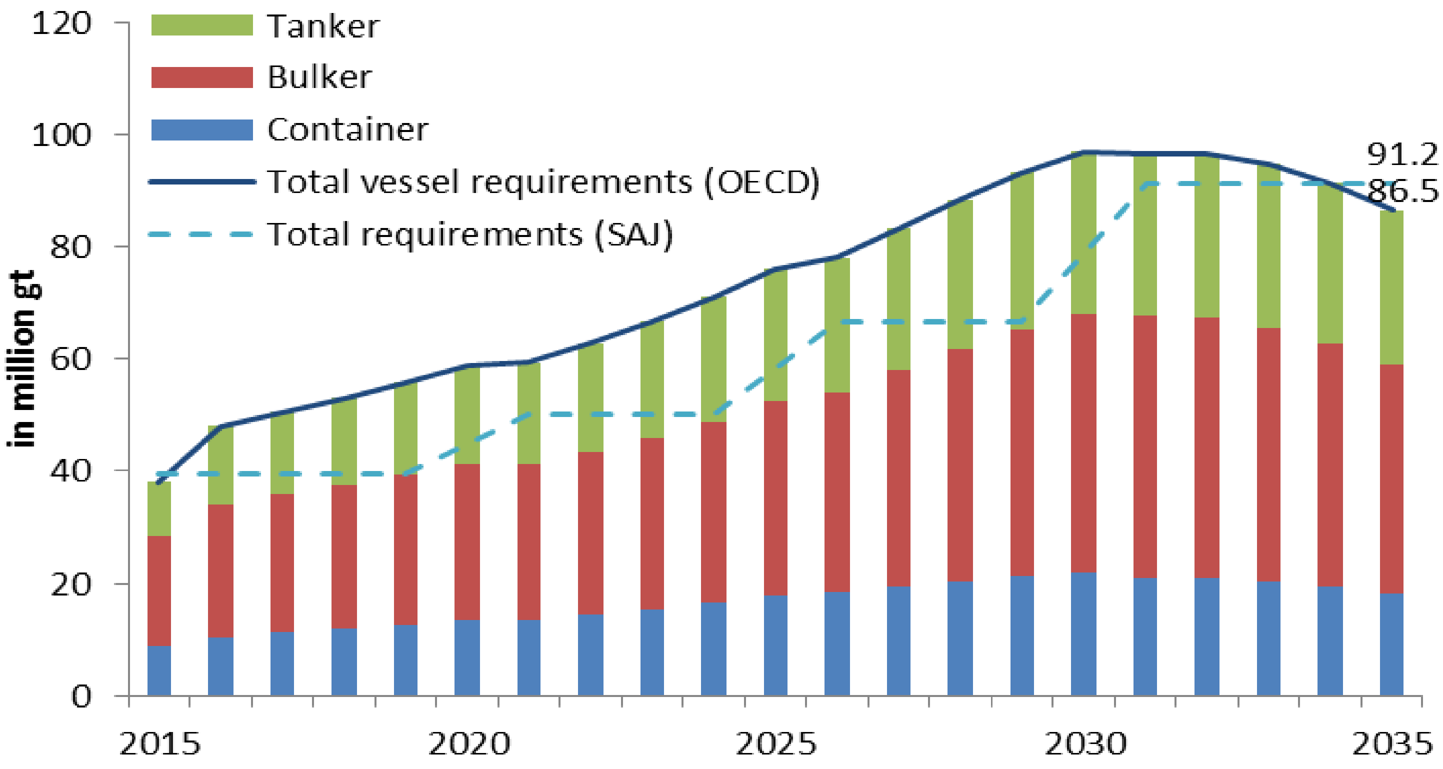
Source: OECD based on IHS Seaweb

Forecast of future replacement demand



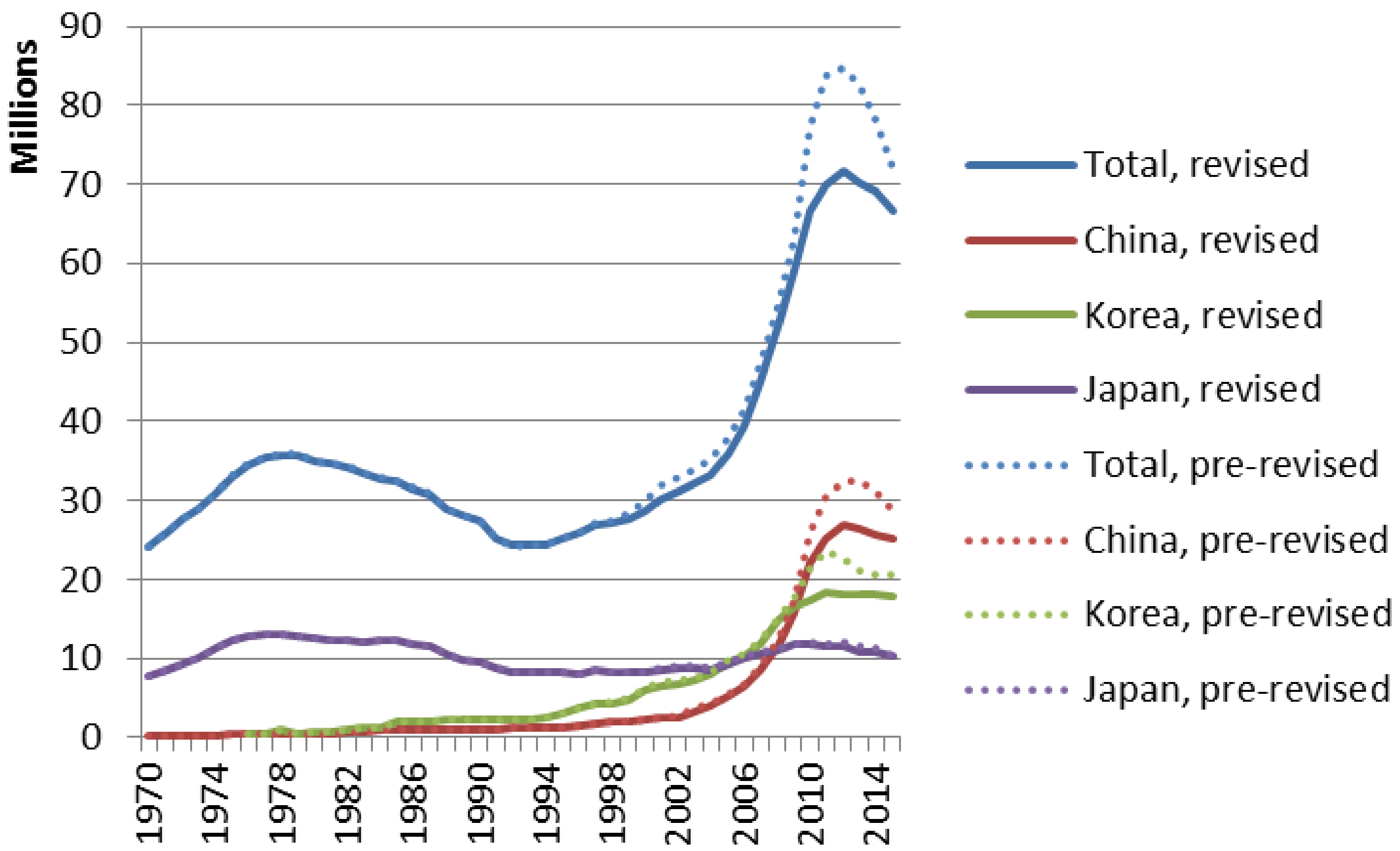
Source: OECD based on IHS Seaweb

Forecast of total vessel requirements



Countries' capacity calculations

Revised and pre-revised national capacity, million cgt



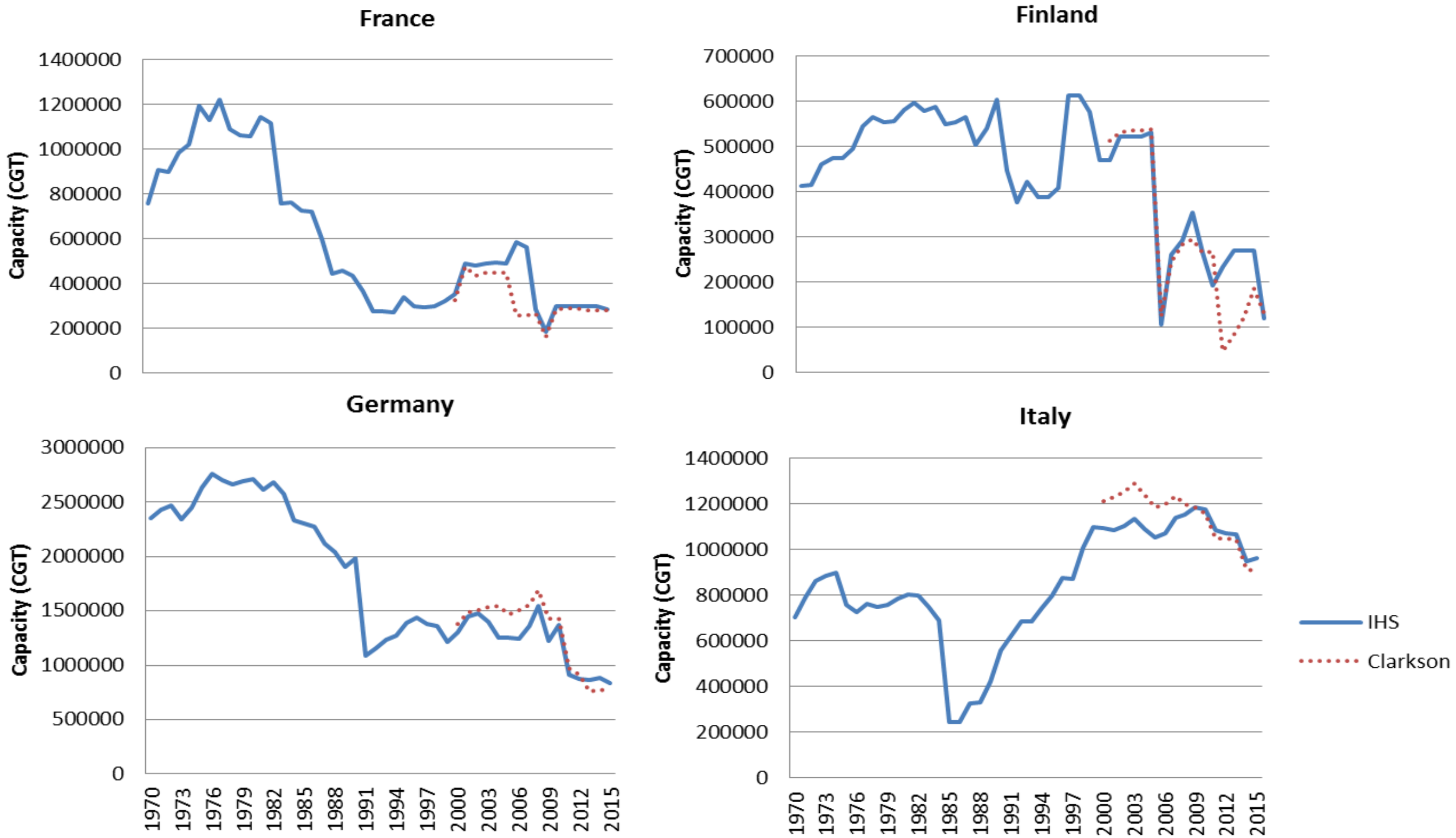
Source: OECD based on IHS Seaweb (2016).

Analysis on contract related production aid taken in EU countries

Table. Contract-related production aid provided to shipbuilding per year (mn euro)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
Operating aid (mn euro)	1,102	722	198	877	466	855	500	347	548

Fig. capacity in France, Finland, Germany, and Italy (cgt)



Analysis on restructuring case of Swedish shipbuilding industry

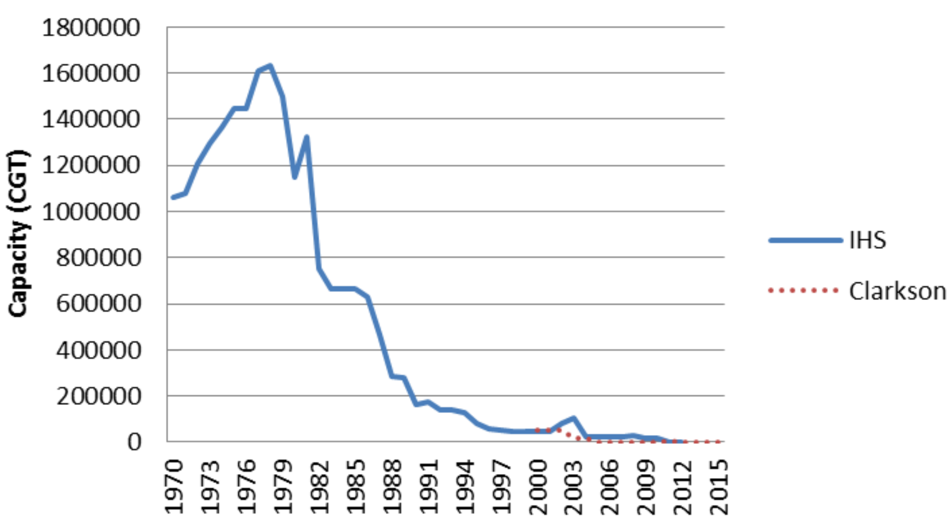
- A large amount of subsidy to shipbuilding industry in 1970
- Industry lost long run competitiveness with unconditional direct subsidy

GOVERNMENT SUPPORT TO SWEDISH INDUSTRY, FISCAL YEARS 1971/72-1979/80 (million US$ in 1980)

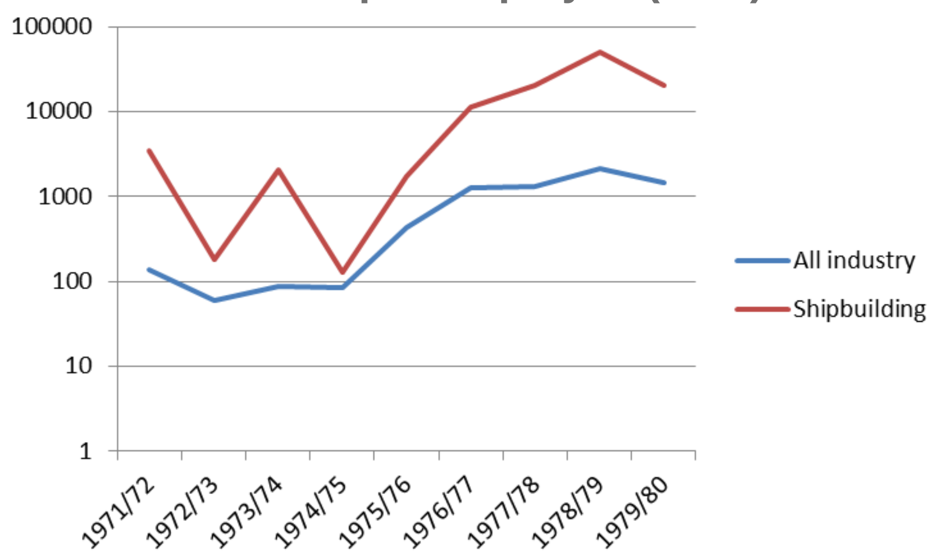
-	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
All industries	124	53	80	78	408	1,148	1,150	1,865	1,250
Shipbuilding	93	5	61	4	54	321	511	1,151	439

Source: World bank (1983)

Capacity in Sweden, in cgt



Subsidies per employee (USD)



Implication from the analysis

- Global capacity utilisation rates have decreased and still are low level
- In the persistent situation of structural imbalances, the financial health of the shipbuilding industry has been deteriorating.
- Oversupply and overcapacity may have contributed to the decline in vessel prices.
- Industry experiences still a sub-optimal level of yard exits and yard survival
- While, public financial contribution conditional upon capacity reduction lead to a decline in capacity, unconditional may tend to increase or maintain capacity.
- Subsidies with the objective of employment reallocation should ideally go to individuals or be provided per employee to the production

Declassification of the report

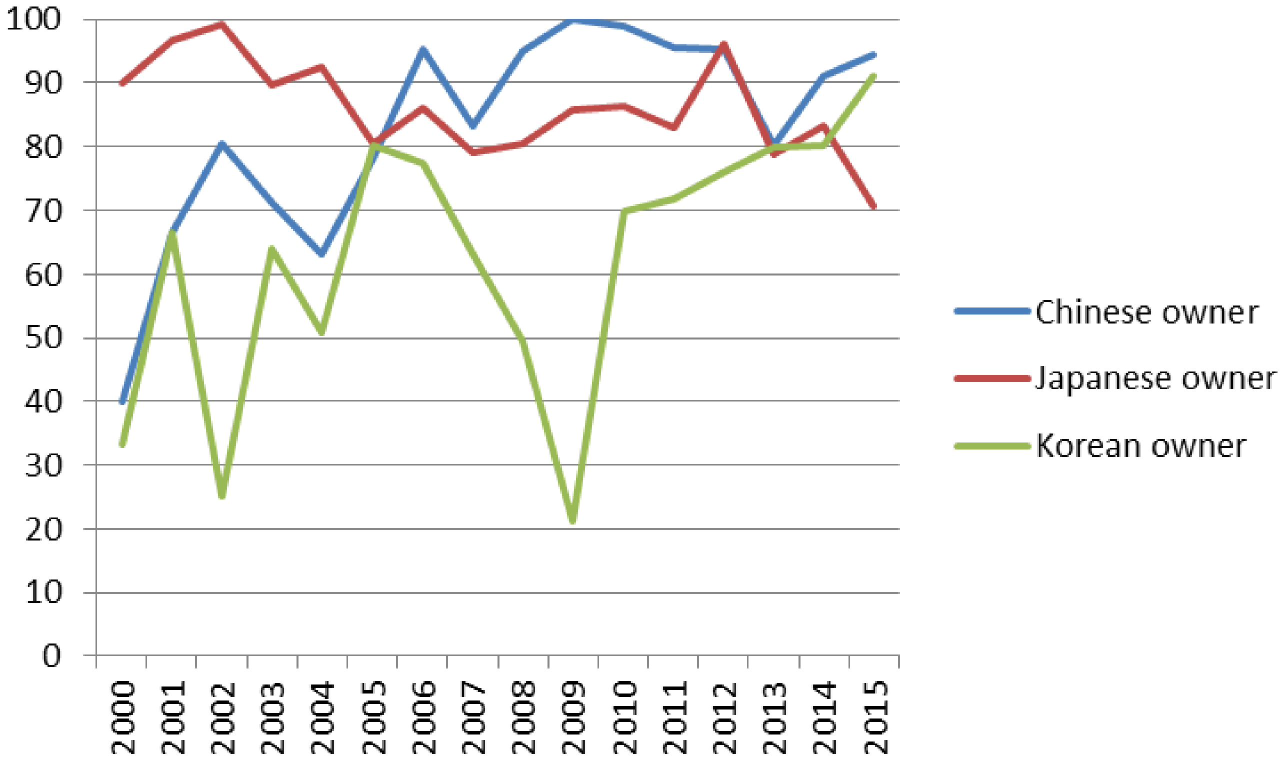
- To raise awareness from industry and government stakeholders and avoid a worsening of the excess capacity situation

- Delegates are invited to discuss the report, mention additional corrections and to agree on the declassification of the report at this session or after by written procedure.

Thank you.

Support measures to demand side

Share of each country's owner placing orders at their own countries' yards, %



Note: Share of each country's owner placing orders at their own countries' yards based on order year is calculated each country's owners' orders to their own country's shipyards (in gt) divided by each country's owners' total orders (in gt)
Source: OECD based on IHS Seaweb (2016).