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Article

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transport regard these recommendations, which are all compatible with the OECD agreements, as suitable means of assisting the German shipbuilding industry in the difficult adjustment process. One of their most important proposals, that to end the disallowance of cumulation of shipyard aid and assistance to ship-owners has in the meantime been put into effect by the Federal Government which has increased the funds earmarked for this purpose at the same time.

As has been said, official assistance of this kind can only provide flanking support. It is primarily for the shipyards themselves to adapt themselves by structural measures to the new situation in shipbuilding. Hamburg's shipbuilding industry, which is mentioned here as an example, has taken very early action in this direction, and this has, literally, paid in the present situation. The big shipyards in Hamburg have concentrated on three spheres which have been affected relatively little or not at all by the crisis: repair services, special ships and productions other than shipbuilding. In 1975 shipyards in Hamburg carried out about 51 p.c. of the repair turnover in the Federal Republic. Hamburg is thus the leader in ship repair services in the Federal Republic.

Adjustments Require Flanking Support by the State

by Werner Fante, Hamburg *

The world production of seagoing ships amounted in 1975 to 2,726 vessels with a total tonnage of 34,333,859 grt. In the following break-down by types of ships the gross registered tonnage is used as an indicator of the internal shipping space and the weighted gross registered tonnage as an indicator of the hours of work required for the production of the ships and thus of the employment provided for the shipyards.

The break-down shows that tankers and combined bulk carriers for the carriage of crude oil and dry bulk cargoes account for about 40 p.c. of the yards' work on new vessels (see Table 1).

Since the war the sea-borne world trade has increased about twice as fast as the world's industrial production. The high growth rates and the technical innovations in shipping and shipbuilding have resulted in exceptionally high growth rates in shipbuilding production. The shipyard capacities however were enlarged even faster than corresponded to the growth of demand, and since the early sixties Japan has been playing a very prominent part in this expansion. Compared with a world shipbuilding production of about 9 mn grt in 1963 the capacities have by now increased to some 40 mn grt. According to OECD enquiries in 1975 the world shipbuilding capacities would by 1977/78 rise to 52 mn grt if all the extensions planned at that time were carried out (see Table 2).

The OECD estimate of the 1977/78 world shipbuilding capacities, it should be noted, is based on the assumption of optimum production programmes for the individual shipyards. The structure of requirements has however changed so that this assumption is no longer practicable. Moreover, a number of investment projects have been postponed or cancelled in view of foreseeable developments, a fact which calls for a further reduction of the OECD forecast of shipbuilding capacities. To take a realistic view, the world capacities should therefore be put at something like 40 mn grt. A translation of shipyard capacities and expected demand into hours of work required indicates a capacity surplus applicable to employment of about 30 to 40 p.c.

Errors in Japanese Planning

This excess capacity has been caused almost entirely by the strenuous expansion of the Japanese shipyards and their bias towards the building of large tankers. The expansion of the Japanese capacities from about 2 mn grt in 1960 to about 10 mn grt in 1970 was primarily directed at increasing Japan's share of the world shipbuilding market. In the main it took place in the big shipyards. Its effect was to double Japan's share of the world market – from 25 to 50 p.c. The European competitors were hit hardest. As a result of the measures taken simultaneously by the Japanese Government in regard to shipbuilding finance the shipyard expansion led to a distortion of the competitive conditions.

A further expansion of the capacities was started off in 1971 by a recommendation of the Shipping and Shipbuilding Ra-

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tionalization Council of the Japanese Ministry of Transport. The Council anticipated a world demand of 38 mn grt for the period beginning in 1975 and suggested that the capacities should be increased further. As it turned out, this demand estimate was far too optimistic. Besides, the Japanese yards went beyond the aimed-at capacity limit in the course of the tanker boom by pursuing parallel expansion schemes biased in favour of capacities for the construction of large tankers. They created additional capacities of nearly 20 grt.

It was not before June 1976 that the Rationalization Council revised its forecast about the employment prospects of the Japanese shipbuilding industry. On the assumption of an annual world shipbuilding demand of 13 mn grt up to 1980 the output of the Japanese shipyards is now estimated at 6.5 mn grt. On the basis of the hours worked in 1974 the recommendation is for employment cuts of 35 p.c. by 1980.

Insufficient Employment Cuts

Acting on the report of the Rationalization Council, the Japanese Government recommended in early August 1976 that the 40 major shipyards should reduce employment from October 1976 to 65 p.c. (taking 1974 as the base year) and stretch the existing order books accordingly. In the advanced state of crisis reached this decision falls in our opinion short of what is needed to solve the problems of the Japanese and thus also the world shipbuilding industry. Our misgivings are mainly due to two points:

☐ Since a reduction of the physical capacities is not envisaged, a new offensive could be launched at any time in order to increase Japan's market share. This danger will exist especially if the market recovers.

☐ In the light of the number of working hours required for the future product mix the annual production of 6.5 mn grt would involve an increase in the Japanese shipbuilding industry's percentage share of the new construction volume in terms of hours worked from 40 to 50 p.c. In view of the greatly reduced demand this means that the Japanese are likely to continue to aim their competition at the displacement of their rivals in the world shipbuilding market.

The German shipbuilding industry has in the last few years time and again gone on record with warnings against excessive capacity expansion and cautiously enlarged its own capacities as much as a realistic assessment of market trends suggested. The larger and medium-sized German shipyards are gravitating towards the construction of specialized vessels; three shipyards only are concerned in the building of large tankers of over 200,000 tdw. The caution with which the German shipyards have proceeded in extending their capacities and their insistence on a wide production programme has been proved well-advised; the German shipyards are nevertheless in full measure exposed to the pressure of the world-wide capacity surplus.

The technical efficiency, strict adherence to delivery deadlines and wide-ranging production programmes of the German shipyards are their greatest assets in the international competition. Handicaps to be mentioned especially on the other side are the high level of costs in the Federal Republic, exchange rate considerations and the distortion of international competition by government intervention and subsidies.

The shipyards must cope with the high level of wage and wage-related costs of the Federal Republic to hold their own in international competition. In 1973–1975 wages actually rose less steeply than in most competitor countries but the wage-related costs increased relatively more. With an average hourly wage

Table 1

World Shipbuilding Production in 1975 by Types of Ships

	Number of vessels	in 1,000 grt	in p.c.	in 1,000 weighted grt	in p.c.
Oil tankers and combined carriers	429	24,435	71.2	7,760	39.6
Bulk carriers	207	4,666	13.6	2,690	13.7
Other cargo ships and other vessels	2,090	5,233	15.2	9,150	46.7
Total	2,726	34,334	100.0	19,600	100.0

Table 2

World Shipbuilding Production and Capacities in 1000 GRT

	1963	Estimated capacity in 1977/78	Growth rate in p.c. 1977/78 compared with 1963
Western Europe	5,543	20,332	267
of which Federal Republic of Germany	1,051	3,120	197
Japan	2,269	22,017	870
Other countries	1,216	9,651	693
Total	9,028	52,000	476

rate of DM 11.30 and wage-related costs adding 66 2/3 p.c. the wage costs of the German shipyards are at DM 18.80 an hour about 30–35 p.c. above the comparable figures for Japanese shipyards. The difference compared with Japan, the market and price leader, is to a very considerable part due to the artificial currency differential between yen and DM.

Since March 1973 the yen has been devalued against the DM by 24.4 p.c. (end of July 1976). This depreciation is in our view substantially due to a deliberate Japanese policy of undervaluation for the yen against the US dollar. On the German shipbuilding industry this undervaluation is bearing especially harshly in the present situation. Not only does the artificial currency differential make it more difficult to secure follow-up orders but it must be feared that remedial measures forced upon German shipyards by this factor will prove wrong in the medium and long term.

Finally, the German shipyards are under a handicap because of government measures which distort the competitive conditions in favour of their rivals for international business. Foremost amongst these are building cost subsidies, state insurance of cost increase and exchange risks, and financing assistance. The OECD and the Commission of the European Communities have presented extensive documentary material about forms of official aid and intervention. The Federal Republic is at the lower end of the subsidization scale. The shipbuilding policy of the Federal Government has the aim of providing only partial compensation for the existing distortions of competition. Measures to aid the financing of shipbuilding exports are provided for this purpose, and since July of this year these are also available for orders from German shipping companies for which grants are made under the programme for the support of sea-shipping. The combined application of both these measures, which can result in assistance of up to 16 p.c., is intended as an additional incentive for German ship-owners to place orders with German shipyards. The German shipyards do not receive any other building cost subsidies.

The world shipbuilding crisis which has been caused by the tanker crisis and excessive expansion especially of the Japanese shipbuilding capacities can only be overcome by joint action of the major shipbuilding countries and shipyard industries. Were the problem of capacity adjustment to requirements to be left entirely to the market, the distortions of international competition in the shipbuilding market would almost certainly lead to a serious misdirection of efforts. Conscious of this danger the West European shipbuilders tried in 1975 to come to an arrangement with the Japanese shipyards about a concerted reduction of capacities. So far these talks have merely led to an exchange of information about future market and order-placing trends. As for the capacity reduction, the Japanese have been pursuing a "wait and see" policy so that no agreements on coordinated action could be reached.

A concerted reduction of capacities presupposes from the point of view of the German shipbuilding industry agreement by all concerned to forgo an increase of market shares in the present situation. Owing to the wide diversification of the production of the German shipyards about half the total workforce of 75,000 is employed in the building of new sea-going vessels. The current measures and plans of the shipyards in question aim at a reduction, in terms of worker-hours, of about 30 p.c. This is to be achieved by reducing overtime, not replacing separations, cutting down on sub-contracting and transferring employees to other production spheres. These adjustments require however flanking support by the state in order to prevent an overproportional contraction of the capacities of the German shipyards.

OECD Adjustment Guidelines

The question of excess capacities and consequent displacement competition is the subject of discussions by the governments of the major shipbuilding countries in the OECD. The outcome of these talks was the adoption in May 1976 of guidelines for the shipbuilding policies of the OECD member countries. Adjustments of capacities to requirements, renunciation of shipbuilding subsidies which interfere with the adjustment process or even create additional capacities and supervision of the shipbuilders to ensure fair market practices are stated in the guidelines to be the targets. The success or failure of the talks on the industry level will depend essentially on the extent and speed of the application of the guidelines in the OECD countries.

This was the situation in which the EC Commission last May evolved ideas about requisite measures of shipbuilding policy. That the Commission is ready to resort to measures in the field of trade and shipping policy to counter the displacement competition of third countries in case the international negotiations fail is a clear warning. From the point of view of the German shipbuilding industry it is, in addition, necessary that the Commission should work more actively than hitherto for equal competitive conditions inside the EC and that it should ensure that the level of subsidies is the same throughout the EC.