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LeaderSHIP 2015 Progress Report

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Introduction

When the LeaderSHIP 2015 strategy was crafted by industry and supported by EU policymakers in 2002-2003, the outlook for Europe's shipbuilding industry seemed rather bleak. New orders were drying up and new building prices were low and declining in response to large capacity increases in Asia. Against this backdrop, LeaderSHIP 2015 was conceived as a vision based on a belief in the capacity and innovative potential of Europe's maritime industries, and a determination to fight for their future.

The initiative identified eight themes, namely:

- Establishing a Level Playing Field in World Shipbuilding
- Improving Research, Development and Innovation Investment
- Developing Advanced Financing and Guarantee Schemes
- Promoting Safer and More Environment-Friendly Ships
- A European Approach to Naval Shipbuilding Needs
- Protection of Intellectual Property Rights (IPR)
- Securing the Access to a Skilled Workforce
- Building a Sustainable Industry Structure

It is now gratifying to note that we have seen generally positive figures on new orders over the course of the last few years. European yards have seen the value of their new orders more than triple between 2002 and 2005, growing, in 2004 and 2005, at a faster rate than in any other region of the world. And with productivity increasing more than fourfold over the last two decades, Europe's highly-specialised shipbuilding industry is competitive, flexible, and well equipped to face the future with confidence. However, recent large increases in global shipbuilding capacity – mainly in Asia – are likely to make the trading environment for European yards even more challenging in the near future. Further details on recent market developments are given in the annex.

The shipbuilding industry is benefiting from two other favourable EU policy developments namely, the renewed focus on competitiveness in the revised Lisbon - growth and jobs - strategy and the Commission's building of a European vision for the oceans and seas based on a holistic maritime policy framework.

LeaderSHIP 2015 has been cited in the latest industrial policy Communications. Indeed, Europe's shipbuilding industry has helped to pioneer this modern application of industrial policy and inspired a similar approach in other industrial sectors. European shipbuilders working with equipment manufacturers do more than deliver the "off-the-shelf" ships favoured by many of their Asian competitors, by providing custom-built solutions that meet their clients' demanding requirements. With its modern industrial policy approach that aims at strengthening international competitiveness and the coherence of various policy spheres, the Commission seeks to do likewise. This is helping to create a business environment that is not just permissive but supportive.

This approach dovetails with the Commission's effort to put in place a holistic maritime policy framework with the publication of a Maritime Policy Green Paper in June 2006 which presents LeaderSHIP as a vital pillar of the competitiveness of Europe's maritime industries and an example to be replicated more broadly. The Green Paper also positions shipbuilding as an essential part of a vibrant and interconnected European maritime space. This new dimension and increased focus on the maritime arena is increasing people's awareness of shipbuilding and boosting its image. But more attention generates more responsibility on all sides to make the most of this currently favourable scenario of good markets and a good political environment to deliver on the relevant recommendations.

Chapter 1: Establishing a Level Playing Field in World Shipbuilding

The shipbuilding industry is truly global and ship owners can buy vessels anywhere in the world without significant technical, commercial or legal restrictions. However, the global trade rules governing the sector are often unequal, incomplete or inapplicable.

Regrettably, no tangible results can yet be seen in this domain despite the best efforts of all concerned in the OECD and other arenas and the determination shown in prosecuting the WTO case against Korea. This case underscored the limitation of current trade rules with regard to shipbuilding where the concept of import and export effectively does not exist and where subsidisation is often related to the producer rather than the product. Thus, the ruling on this case offered little help to European shipbuilding.

Meanwhile, OECD negotiations on a shipbuilding agreement addressing the twin problems of subsidies and unsustainably low prices in the world shipbuilding market were "paused" in October 2005 without the conclusion of a meaningful and enforceable agreement. The relevant Working Party No. 6 (WP6) has since been reactivated for a limited period and the Commission continues to engage and contribute to this worthwhile, if difficult process. However, our main competitors do not currently seem sufficiently motivated to make the requisite commitments to secure an agreement. No breakthrough concerning the re-opening of substantive OECD negotiations is expected soon. Nevertheless, the situation should be subject to review in order to see whether there is scope for re-activating the discussions.

In addition bilateral discussions are now being actively pursued. To that effect, progress has been made in setting up a comprehensive bilateral Shipbuilding Dialogue with China that will address all relevant issues. The first meeting between Commission officials and their Chinese counterparts was held on 20 December 2006. Broad agreement has been reached on the scope and substance of the Dialogue and a Memorandum of Understanding should be signed at high-level by this summer. Meanwhile, work is also starting with regard to the possible opening of negotiations with Korea on a Free Trade Agreement. Obviously in view Korea's pre-eminent role in the global market, shipbuilding should feature in these negotiations.

A viable and sustainable European, and indeed world shipbuilding industry cannot be based on overcapacity, protectionism or subsidies and the Commission is continuing to work to convince our trading partners to address these matters as seriously as we do in Europe. Due attention is also being given to the causes and effects of global differences in the costs of certain raw materials on the competitiveness of European yards.

Chapter 2: Improving Research, Development and Innovation Investment

Improving Research, Development and Innovation is a key pillar of the LeaderSHIP 2015 initiative. Europe's competitive advantage has been and will continue to be based upon its ability to construct the most advanced vessels. In fact, Europe accounts for almost all ship innovations. This is made possible by the successful and continued development and application of innovation and research.

In the knowledge economy of the present and future, LeaderSHIP has stimulated the targeting of legitimate support to innovation by making the EU's rules responsive to the needs of the sector. Updated provisions on innovation aid to shipyards - with aid intensities tailored to reflect and reward intelligent risk-taking and enhance Europe's technological ascendancy - have been in force since 1 January 2004. Innovation aid may be granted for the industrial application of innovative products and processes. These new rules are tailored to meet the specific needs of shipyards - where one out of four deliveries is based on a completely new and innovative design or prototype. And they bear witness to the fact that European shipyards are genuine engineering power-houses.

Germany, France, Spain and more recently the Netherlands and Italy, have taken the opportunity presented by the new state aid framework to develop and fund national schemes to support innovation. Given the time-lag between the adoption of the framework and the setting-up of the national schemes, more time is needed in order for industry and Member States to implement these schemes and present their results to the Commission. Consequently, the framework has been prolonged until 31 December 2008 to allow more time to assess its effectiveness. It is also worth highlighting here the constructive co-operation between industry and the Commission on the elaboration of applicable rules, which facilitated the roll-out of the scheme in the Member States concerned.

The other key LeaderSHIP recommendation in this chapter, namely the call for a Technology Platform (TP) to strengthen the European dimension of research, development and innovation has been delivered with the launch of the WATERBORNE TP. With the shipbuilding industry providing the secretariat, this platform brings together all strands of the maritime industries, Member States and other stakeholders. Meanwhile, as Community funding for surface transport has almost doubled - to around €1.3bn - between the 6th (FP6, 2002-06) and the 7th (FP7, 2007-13) Framework Programmes, the opportunity exists for maritime transport to win increased support – even compared to the *circa* €200 million it secured from FP6. FP7 also foresees security - including the development of particular solutions for the maritime sector - as a new research theme. It is important that maximum benefit is derived from FP7 and other sources of funding in Europe by avoiding duplication, creating synergies and optimising co-ordination between policymakers, industry and scientific communities. The high-tech nature of the shipbuilding industry is further underlined by the fact that yards, on average, invest more than 10% of their turnover on research, development and innovation.

Finally, in this context, and as emphasised in the Green Paper consultation, industrial clusters also play an important role in maritime industries due to the location of enterprises and the very high level of outsourcing and inter-linkages between sectors. Clusters are an important driver for innovation and competitiveness. The Commission is ready to follow-up the Maritime Policy Green Paper in this respect by identifying the drivers and characteristics, including the sectoral coverage of successful maritime clusters and ascertaining the role of the Commission, in conjunction with national and regional authorities, in promoting them.

Chapter 3: Developing Advanced Financing and Guarantee Schemes

Shipyards need to handle large, expensive and complex projects. In most cases, a yard's annual production value exceeds its own value as a going concern; yet it has to assume full liability for each ship built. So, yards not only develop innovative projects, but also need to organise the necessary working capital and the refund guarantees generally demanded by owners. This drain on time and resources adversely affects European yards' competitiveness vis-à-vis their competitors who, in most cases, benefit from state-supported ship-financing schemes.

Accordingly the Commission has been working intensively on this issue with a view to finding a pragmatic solution that meets the needs of industry whilst remaining fully compatible with competition, OECD and WTO rules. In this context, the focus has been placed on pre-delivery financing (refund guarantees) as owners generally do not have problems securing post-delivery financing in the market.

Consequently, the Commission has initiated extensive contacts with the European Investment Bank (EIB) to examine the feasibility of it taking a leading role in devising and implementing an appropriate scheme.

The EIB has been helpful and constructive in actively seeking a satisfactory solution, however it has indicated that it faces significant constraints notably in terms of its statute, available resources and sector-specific expertise which make it challenging for it to take a lead role in setting up and running the envisaged EU guarantee fund.

The Commission has also explored this matter in some depth with experts from other banking institutions and brought all interested parties together on a number of occasions to examine the feasibility of the desired scheme.

These efforts lead to a Workshop with Member States, industry, the EIB and the relevant Commission departments on 20 October 2006. Industry has estimated that at least €300m would be needed initially to guarantee the fund. At the conclusion of the Workshop, the Commission invited all participants, particularly Member States, to comment on industry's proposal, with a view to taking the matter forward; however no responses have yet been received.

The Commission meanwhile, has also explored the possibility of a Community budget allocation of the funds necessary to back a guarantee fund for shipyards. This however, would require a specific legislative act and financing of the requisite amount which implies that a solution might only be found in the context of any revised budgetary framework. It should also be noted that the rationale for an EU scheme remains intact despite the creation of national schemes in many countries. Industry sees a European scheme as complementary rather than as an alternative to national measures.

In the light of this assessment, the Commission can only make further progress on this issue if there is a clear political will also from Member States to deliver an appropriate response to the problem. This has to be demonstrated by providing a firm mandate and support from the budgetary authority and the EIB for the requisite refund guarantee scheme.

Chapter 4: Promoting Safer and more Environmentally-Friendly Ships

Ships produced in Europe are of the highest quality in terms of complexity, safety and environmental impact - frequently surpassing the relevant regulatory requirements. Furthermore, ongoing innovation in terms of design and construction is driven by market and societal demands for safer and cleaner ships. But European yards compete in a truly worldwide market which does not always fairly value quality, knowledge and service and where ships are sometimes treated as a “commodity”. The Commission and industry, accordingly, generally welcome higher global standards to ensure fair competition in a global marketplace.

However, care must be taken to ensure that global rules are not misused or do not have perverse side effects. For instance, discussions in the International Maritime Organisation (IMO) on the issue of Goal-Based new ship construction standards require careful consideration to ensure that any quality and safety benefits they might generate, do not lead to any form of unintended technology transfer through mandatory ship construction files. Likewise, the International Association of Classification Societies’ (IACS) new unified rules for hull construction aim to promote safer ships but due care must be taken by all to avoid any unwanted leakage of intellectual property or specialised knowledge.

The Commission recognises the need to take due account of safety and environmental concerns in its competitiveness policy initiatives and is working to ensure that our global competitors and trading partners do likewise. It also means more research into clean ship technologies and encouraging more and better ship maintenance in Europe’s wide range of quality ship repair facilities. In this context, the Commission recently presented a Third Maritime Safety Package to reinforce existing legislation notably regarding classification societies; port state control; monitoring of maritime traffic; responsibility of flag states; maritime accident investigations and the liability of ship-owners.

The issue of ship dismantling is also on the agenda to be addressed in a Commission Green Paper.

Industry provides expert technical input to the Commission and to European Maritime Safety Agency (EMSA) and joined with other shipbuilding regions to form an organisation charged with co-ordinating technical contributions to rule-making bodies to ensure that the views of manufacturers are taken more into account. Last but not least in this respect, shipbuilding and shipping industries are playing an increasingly important role in reducing transport pollution and increasing safety by the promotion and use of Short Sea Shipping. EU shipbuilding industries should continue taking the lead in clean shipping technology, including the application of technologies to reduce energy consumption, air emissions and use of hazardous materials and more environmentally friendly antifouling protection. This will help bring the 'clean ship concept' into wider application. Waterborne freight transport is already more fuel efficient than other transport modes and European yards stand ready to make an even greater contribution to its success by delivering appropriate, innovative and flexible ship designs. This would be in line with the strategy to reduce atmospheric emissions from sea-going ships and the EU thematic strategies on the sustainable use of natural resources and on the marine environment. Initiatives like Marco Polo and Motorways of the Sea which are introducing new, intermodal maritime-based transport logistics chains in Europe to shift freight from the road to the sea are being taken forward. The vital role of ships in providing the hardware to facilitate the development of appropriate means in this context can be further harnessed for the mutual benefit of both the yards and Europe’s transport objectives.

Chapter 5: A European Approach to Naval Shipbuilding Needs

The pivotal role of maritime industries in providing essential hardware for the EU's security and defence strategies requires careful attention in the formulation and implementation of policies. The quality and cost effectiveness of Europe's naval yards is an asset that needs to be nurtured and exploited. The Commission is continuing to explore how to better harness Europe's competitive advantage in naval shipbuilding by, for instance, reducing market fragmentation and facilitating potential synergies in the application of industrial and security/defence/procurement/policies.

Strong integrated European players will help the competitiveness of Europe's naval sector. While neither driving nor restraining the process, the Commission welcomes the emerging trend of consolidation and co-operation between naval shipbuilding yards at national level, provided it constitutes a step towards building a European Defence Technological and Industrial Base (EDTIB) in the naval sector.

Much work remains to be done to agree common operational requirements and harmonise procurement cycles with a view to reaching the ultimate goal of interoperability of vessels and fleets.

This notion of interoperability is also becoming essential in the context of the emerging requirement for coherent, pan-EU, maritime surveillance capabilities. The development of the corresponding assets according to the concept of "systems of systems" will stimulate the need for naval platforms and contribute to the competitiveness of naval shipyards in Europe.

That is why the Commission is warning that the competitive advantages of the European defence and naval industry are at risk without significant change. The duplication and loss of economies of scale through what has been termed "Non-Europe" in the area of security and defence encompasses the challenges faced by naval yards with fragmented industrial bases serving only national markets.

However, the European Defence Agency (EDA) - whose creation was also recommended in LeaderSHIP 2015 - was established in July 2004. The Agency is delivering on its stated objectives and indeed helping to achieve the goals outlined above.

In the coming months the Commission intends to come forward with a comprehensive defence package including initiatives in the field of defence-related procurement and intra-EU transfers of defence equipment.

Chapter 6: Protection of Intellectual Property Rights (IPR)

The future of the European shipbuilding industry hinges on its technological leadership. Europe's maritime excellence and competitiveness in shipbuilding and marine equipment is based on having the best products and industry and policymakers must work to ensure that the knowledge and experience that helps create them is valued and protected. The Commission is working with industry in this respect to raise awareness of intellectual property, better exploit existing instruments and try to ensure that all our competitors play by the rules.

To that effect, the Commission launched a year long study on intellectual property-related issues in shipbuilding in December 2006. The main aim is to obtain an in-depth understanding of the problems relating to protecting the European shipbuilding industry's intellectual

property. This embraces the qualitative and quantitative dimensions of the problem and the mechanisms by which European shipbuilding know-how is channelled (legally and illegally) to competitors.

It will define the problems more precisely and assess their economic impact with a view to the formulation of specific policy recommendations. A Working Group of the Maritime Industries Forum looking into Rules, Regulations and Rights is also addressing intellectual property concerns. And, as indicated above, the Commission intends to include this issue in the shipbuilding Dialogue with China as well as in relevant multilateral and bilateral trade negotiations.

Industry is also engaged in establishing internal structures to properly prepare their position on the issue.

Chapter 7: Securing the Access to a Skilled Workforce

In Europe's technologically advanced shipbuilding industry, a highly-skilled workforce is a key factor in turning knowledge into wealth and ensuring productivity, innovation and competitiveness. The Commission shares the view of the social partners that success is created by shipyard workers using their knowledge and experience. Yards need to recruit, retain and retrain quality workers to maintain their skills base and know-how and secure their long-term success.

The Community of European Shipyards Associations (CESA) and the European Metalworkers Federation (EMF) established a formal Social Dialogue Committee for the shipbuilding and ship-repair sectors in September 2003. This is the first of its kind in the metal trades in the EU and bears witness to the working environment in most European yards that is characterised by professionalism and mutual respect.

In that framework, CESA and EMF have been granted the status of European social partners. As such they are consulted on social policy proposals and, if they wish, their dialogue may lead to contractual relations, including agreements. So far, the committee has created three working groups on the image of the sector, worker training and qualifications and cyclical activities and restructuring issues.

The Committee has delivered practical initiatives like the European Shipyard Week in March 2006. The prime objective of the "Shipyard Week" was to reinforce and spread the message of LeaderSHIP 2015, improve the attractiveness of shipyards as a workplace for young graduates and highly-skilled professionals and promote a positive image for the sector. Planning is already underway for a similar exercise in 2008.

But the problem of the image of shipbuilding which is often portrayed as an old industry with an uncertain future remains and must continue to be addressed. Young graduates and highly skilled workers are not always aware of the opportunities available as a result of the dynamic evolution of shipyards in recent years.

Meanwhile, the MIF also called for a European Maritime Day in its recommendations at the last plenary session in Oslo (Norway) in October 2006.

Going forward, the Social Dialogue committee is currently preparing a new project to develop an aggregate age and qualification profile that could be used to identify future training and recruitment requirements. This also envisages analysing and addressing the problem of an ageing workforce that is particularly acute in some Member States and could complement any future Commission initiatives in the field of maritime skills.

Chapter 8: Building a Sustainable Industry Structure

The Commission has neither the mandate nor the vocation to define the structure of Europe's shipbuilding industry. This is up to the market and the forces and principles that rule it. However, the fragmentation of the European shipbuilding industry, if continued, could hamper competitiveness. The Commission therefore welcomes recent developments in the direction of mergers, acquisitions and joint ventures. Strong European shipbuilding groups with the requisite financial and technological capabilities will be better equipped to compete successfully in the increasingly competitive world market. LeaderSHIP 2015 has certainly facilitated some convergence of national policies towards the shipbuilding industry by providing a benchmark framework for the competitiveness of the sector. But there is still scope for further progress in this direction.

Compared to its main competitors in Japan and Korea, the European shipbuilding industry is more diversified, has more small and medium sized yards and the process of consolidation and restructuring is not yet completed.

Conclusions and Outlook

LeaderSHIP 2015 is delivering results on all fronts. It has contributed to a shift in European policy towards and public perception of, the sector. Whereas shipbuilding used to be seen as a subsidised sunset industry, it is now widely recognised as part of a modern and efficient European manufacturing sector that is actually offering new jobs and driving growth in transport, trade, tourism and other areas. LeaderSHIP is a tangible example of the application of the Growth and Jobs strategy to a specific sector. Aided by positive market developments, it has mobilised stakeholders, helped industry adapt to the end of operating aid in 2000 and provided a universally accepted roadmap for necessary change.

We should also not underestimate the rallying/mobilising effect it has had on industry itself – on whom ultimate success in the market depends – in encouraging it to build common strategies and structures to respond to challenges in all domains. Moreover, this effort is further underpinned by the Green Paper on Maritime Policy, which emphasises the importance of the maritime sectors in Europe.

The Commission believes that LeaderSHIP 2015 continues to provide an appropriate framework for its policies towards the shipbuilding sector. It should continue and be accelerated where possible, particularly with regard to the issue of ship financing. But it should also be noted that in many areas the ball is largely in the field of industry (e.g. industry structure) or of Member States. The market environment for Europe's world class shipyards is likely to become more demanding in the years ahead but the Commission remains committed to LeaderSHIP 2015 and will continue to strive to ensure that the best policy mix is being crafted and applied at EU level to meet the challenges ahead.