

出國報告（出國類別：國際會議）

OECD 「造船工作小組」第 125 次會議

服務機關：經濟部工業局

姓名職稱：張尚鈞科長

派赴國家：法國巴黎

出國期間：中華民國 106 年 11 月 18 日至 11 月 23 日

報告日期：中華民國 106 年 12 月 15 日

摘 要

OECD 理事會造船工作小組 (WP6) 旨在逐步建立產業的正常的競爭環境，鼓勵經由數據收集和分析的透明度，尋求擴大全球造船大國與非 OECD 經濟體間於造船產業政策之溝通討論平台。

本(125)次「WP6」會議於 2017 年 11 月 20~21 日法國巴黎召開，我國由張科長尚鈞率領船舶中心鍾昆憲專案經理代表出席。會議主席為挪威常駐 OECD 代表-- Ms. Elin Østebø JOHANSEN 大使，與會各國成員總共有 68 位代表出席。主要討論議題包括海事產業之綠色成長、同儕檢視、補貼等政府支持措施，造船相關政策發展及市場走向、拆船業發展、修正總噸計算公式、船舶出口信貸瞭解書、造船工作小組設立授權之延展、未來工作計畫、新任主席及工作小組成員之遴選等議題。

以上議題，與我國較有相關者為「海事產業之綠色成長」，國際海事組織(IMO)發表了「IMO 在保護海洋環境方面最新事態發展」、國際能源署(IEA)介紹「IEA 之航運脫碳分析」，還有歐洲投資銀行簡報「綠色船舶貸款/擔保計劃」以及其它國家、廠家在促進綠色船舶建造和營運之措施及角色，顯示全球海事產業相當關注此議題，會中各界提出之措施、作為及相關報告，均可作為我國政府及產業參考及借鏡的依據。

下次會議預計於 107 年 5 月 15 日(三)舉辦 WP6 研討會，並出席造船工作小組會議各國代表，屆時均將獲邀出席 OECD 海洋週之各項活動，瞭解全球造船市場發展與變化。建議我國仍持續與會，以提供政府、國內產官學研及廠商之國際訊息，因應國際造船發展趨勢，進一步擬定我國的造船策略與發展方向，與各國代表溝通及交流國際造船市場資訊及發展趨勢，打開我國造船產業於國際知名度，尋求開展與共同合作契機。

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壹、前言

一、經濟合作與發展組織簡介

經濟合作與發展組織(OECD, Organization for Economic Co-operation and Development)之「造船工作小組」(Council Working Party on Shipbuilding, 簡稱 WP6) 直屬 OECD 理事會，其位階相當委員會層級，係 OECD 現存以單一產業為探討主題的兩個委員會之一(註：另一個產業委員會為鋼鐵委員會)。

OECD 理事會於 2002 年 6 月授權成立「OECD 造船特別諮商小組」(Special Negotiating Group, 簡稱 SNG)，並正式邀請我國及中國等非會員國 (Non-Member Economies) 參加新造船協定 (New Shipbuilding Agreement) 談判 (註：所謂新造船協定即是為便利與 1994 年所簽署之造船協定有所區別)。OECD 期望經由多邊談判建立國際造船市場之規範，塑造公平的競爭環境。惟該談判自 2002 年 12 月至 2005 年 9 月歷經 12 次會議，後因各重要國家對於該新造船協定部分條文無法達成共識，談判終告暫停 (pause)。

二、造船工作小組(WP6)簡介

OECD 理事會造船工作小組 (WP6) 旨在逐步建立產業的正常的競爭環境，鼓勵經由數據收集和分析的透明度，尋求擴大全球造船大國與非 OECD 經濟體間於造船產業政策之溝通討論平臺。

造船工作小組的主要優先工作項目為建立全球造船產業之正常競爭環境，消除造船市場扭曲因素，鼓勵藉由產業資訊透明度及各國間之同儕檢視，以避免政府對其造船產業之不適當補貼支持措施。

目前工作小組成員包含澳大利亞，加拿大，丹麥，芬蘭，德國，希臘，義大利，日本，韓國，荷蘭，挪威，波蘭，葡萄牙，西班牙，瑞典和土耳其，克羅地亞和羅馬尼亞已完全參與工作小組，歐盟委員會代表歐盟，也參與 WP6 會議。

三、造船工作小組的功能

OECD 理事會造船工作小組 (WP6) 提供各國政府、全球造船產業間相互交流之國際平臺，透過祕書處相關專家進行全球新船訂單、訂單簿及交船量之數據追蹤、分析，預測世界造船產能供需狀況，提出產能過剩與否等預警訊息，提供各國政府調整其產業政策以協助造船業者新商機之開發。

本次工作小組主席為挪威常駐 OECD 代表--Mr. Olav Myklebust 大使，與會成員包含丹麥、芬蘭、德國、意大利、日本、韓國、挪威、波蘭、葡萄牙、土耳其、歐盟、巴西、臺灣、克羅埃西亞、菲律賓、羅馬尼亞、貿易聯盟諮詢委員會(TUAC)、韓國造船協會(KSA)及 Sea Europe 等產業公會或組織代表和 OECD 工作小組，總共有 80 位代表出席會議(各國參與單位及名單如附件二)。

四、近 5 年造船工作小組會議

日期	主題	會議內容
2013 年 6 月 17~18 日	第 116 次「WP6」會議	討論有關出口信貸、綠色船舶、國營企業角色等議題，並進行葡萄牙政府造船產業支持措施之同儕檢視。
2013 年 11 月 27~28 日	第 117 次「WP6」會議暨專題研討會(造船全球價值鏈)	討論各界(各國、組織、公司)對於在造船全球價值鏈對產業、船舶設備、航運、船廠員工等方面之影響進行報告研討。
2014 年 6 月 12~13 日	第 118 次「WP6」會議	討論有關造船產業政策發展、產業政策評價、海洋經濟 (更新版)、SSU 最新發展、綠色船舶、WP6 計劃更新、造船產業供需分析。
2014 年 11 月 24~25 日	第 119 次「WP6」會議暨專題研討會(造船及離岸產業)	討論造船產業領域發展趨勢、機會及挑戰，並說明海洋經濟發展情形。
2015 年 6 月	第 120 次「WP6」會議	討論有關政策發展、出口信貸造船部門瞭解書--最新發展、綠色船舶、造船產

11~12 日		業之新金融型態、國際運輸論壇之大型貨櫃船報告、供應與需求分析、公平競爭之措施回顧、後續造船及離岸產業發展、WP6 計畫更新等議題。
2015 年 11 月 9~10 日	第 121 次「WP6」會議暨專題研討會(全球造船產業供給及產能過剩)	討論各國政府造船政策發展及挑戰、同儕檢視、出口信貸造船部門瞭解書(SSU)最新發展、綠色船舶等事項。
2016 年 5 月 23~24 日	第 122 次「WP6」會議	討論造船政策發展圓桌會議、造船產業新型態資金支援、政策發展、供應與需求分析、綠色船舶、未來海洋經濟計畫等議題，邀請各國產、官及組織代表共同討論造船相關產業之發展趨勢、機會及挑戰，並進行經驗分享。
2016 年 12 月 1~2 日	第 123 次「WP6」會議暨專題研討會(海事群聚產業及全球性挑戰)	討論各國政府造船政策發展、全球造船產業供需分析、造船產業出口補貼、造船工作小政策工具、綠色船舶及 106 年度工作規劃等議題。
2017 年 4 月 18~19 日	第 124 次「WP6」會議	主要討論議題包括造船市場供需分析、政策發展、綠色船舶、政府補貼及支持措施、修正總噸之探討等。
2017 年 11 月 20-21 日	第 125 次「WP6」會議暨專題研討會(海運業綠色成長)	進行芬蘭同儕檢視，討論補貼等政府支持措施，造船相關政策發展及市場走向、拆船業發展、修正總噸計算公式、船舶出口信貸瞭解書、造船工作小組設立授權之延展、未來工作計畫、新任主席及工作小組成員之遴選等議題。

貳、團員及任務分工

- 一、本次會議於法國巴黎 OECD 總部舉行
- 二、會議地點：2,rue Andre' -Pascal, 75775 Paris Cedex 16, France
- 三、會議時間：106 年 11 月 20~21 日。全部行程為 106 年 11 月 18 日至 11 月 23 日(返抵臺灣)，為期 6 天。

四、行程表

日期	內容
2017/11/18	臺北-法國巴黎
2017/11/19	抵達法國巴黎，與會前資料準備
2017/11/20	出席“海運業綠色成長”專題研討會
2017/11/21	出席第 125 次造船工作小組會議
2017/11/22	法國巴黎-臺北
2017/11/23	抵達臺北

五、我國出席人員：

參加團員			任務分工
單位	職稱	姓名	
經濟部工業局	科長	張尚鈞	全盤綜理 OECD 事務
財團法人船舶暨海洋產業研發中心	專案經理	鍾昆憲	有關造船專題研討會相關議題資料之處理，「修正總噸」、「同儕檢視」、「造船市場發展」等事項提供補充、說明及一般性業務，出席會議行政事務
駐法代表處經濟組	一等秘書	梅碧琦	處理 OECD 及國內相關單位之協調工作，出席會議行政事務

此次 OECD 造船工作小組會議，經濟部國貿局未派員，駐法國代表處經濟組賴作松組長及梅碧琦副組長，除在各種行政支援上大力協助，並與 OECD 工作小組連繫，其中梅碧琦小姐亦出席本次會議。

參、開會議程表

WORKSHOP ON GREEN GROWTH OF MARITIME INDUSTRIES

OECD COUNCIL WORKING PARTY ON SHIPBUILDING (WP6)

PROGRAMME

20 November 2017
OECD Conference Centre
Paris, France

 [#Shipbuilding](https://twitter.com/Shipbuilding)

OECD COUNCIL WORKING PARTY ON SHIPBUILDING (WP6)

Workshop on Green Growth of Maritime Industries

Maritime freight transport is indispensable to world trade and globalization as around 80 per cent of global trade, which has been growing at a fast pace in recent years, is carried by sea and is handled by ports worldwide, according to UNCTAD. The increase in greenhouse gas (GHG) and air pollutants emissions by international shipping is notably driven by this growth in seaborne trade. The shipbuilding and marine equipment industries are expected to play a large role for the improvement of the environmental performance of ocean-going vessels by focusing on this goal in their research, development and production activities.

The IMO has played a key role in the development of international regulation and practical measures tackling GHGs emissions, air pollution, and the spread of invasive aquatic species. Many of these impacts can be mitigated thanks to the investment in green technologies. Regional and national policies have also been implemented to boost innovation and to encourage the application of greener technologies. In addition to the effort made by the public sector, private sector initiatives can boost greener shipping notably by encouraging end customers to choose maritime freight transport carried by greener vessels.

These actions at international, regional and national levels not only impose a burden on maritime industries but also boost demand for new building, repairing and retrofitting as well as for offshore wind industries. Appropriate ship finance is an important element of the sustainable development of greener shipbuilding and machinery industries.

The workshop is expected to contribute to better understanding of which role governments could play to help develop greener maritime industries. It will notably allow participants to discuss how maritime industries can address environmental challenges, and what are the main driving forces and barriers to invest in greener technologies.

The workshop is part of the first OECD Ocean Economy Week (20-24 November 2017), which also includes the [2017 OECD Green Growth and Sustainable Development \(GGSD\) Forum](#) focusing on 'Greening the Ocean Economy' and a [Conference on New Approaches to Evaluating the Ocean Economy](#) under the Innovation and Ocean Economy Project.

PROGRAMME

Monday, 20 November 2017
OECD Conference Centre - CC 13

9.00 – 9.30 Welcome Coffee

9.30 – 9.40 Welcome and Introduction to the Workshop

Chair: Mr. Olav Myklebust, Minister Counsellor (DPR), *Permanent Delegation of Norway to the OECD and Chair of the WP6*

Introduction by Mr. Olav Myklebust on the objectives of the workshop and the main issues to be discussed.

9.40 – 11.10 **Session 1: International efforts for greening maritime industries**

This session aims to better understand the international efforts addressing environmental challenges in maritime industries. In particular, the IMO has played an important role by implementing measures regarding GHGs emissions, air pollution, and the spread of invasive aquatic species, which drive the investment in green technologies by ship-owners as well as higher R&D efforts by suppliers.

- Presentation by **Dr. Jane Lister, Senior Research Fellow, University of British Columbia** on achieving greener shipping notably by better governing sustainable maritime transport.
- Presentation by **Mr. Camille Bourgeon, Technical Officer, International Maritime Organisation (IMO)** on recent developments made by the IMO in respect of protection of the marine environment. Mr. Bourgeon's presentation will include a summary of IMO's Marine Environment Protection Committee (MEPC) 71 and a focus on IMO's GHG discussion.
- Presentation by **Mr. Merijn Hougee, Director, Clean Shipping Index** on Clean Shipping Index (CSI) assessing the environmental performance of ships and shipping companies.
- Presentation by **Ms. Renske Schuitmaker, Analyst, Directorate of Sustainability, Technology and Outlooks, International Energy Agency (IEA)** on IEA's analysis on decarbonisation of shipping.

Selected issues for discussion:

- Are additional rules needed at the international level?
- How can international organizations or the private sector contribute to encouraging customers to adopt greener technologies?
- What is the impact of international environmental regulation on the shipbuilding, repairing and machinery industries?

11.10 – 11.40 Coffee Break

11.40 – 13.00 **Session 2. Regional and national policies and measures promoting the construction and operation of greener vessels**

This session aims to discuss regional and national policies promoting the construction and operation of greener vessels and includes presentations by the OECD Secretariat and selected government representatives; this session discusses the role of governments to promote the construction and operation of (over-compliant) greener vessels as well as to boost innovation in maritime sector.

- Presentation by **Mr. Laurent C. Daniel and Mr. Kei Ito, OECD** on the analysis of measures taken at regional and national levels aiming to promote the construction and operation of greener ships.
- Presentation by **Mr. Mogens Schrøder Bech, Director, Maritime R&D, Danish Maritime Authority** on Green Technology Innovation in Shipping (e.g. Blue INNOship) from a Danish Maritime Authority point of view.
- Presentation by **Mr. Ö. Umut Şentürk, Head of Department, Ministry of Transport, Maritime Affairs and Communication, Turkey** on ship construction and scrapping scheme in Turkey and its impact on promoting greener shipping.
- Presentation by **Dr. Yongsuk Suh, Shipbuilding Program Director, Korea Evaluation Institute of Industrial Technology (KEIT)** on recent efforts on the construction of green ships in Korea.

Selected issues for discussion:

- What can be done by governments to promote the construction and operation of over-compliant greener vessels?
- What is the role of governments to boost innovation in the maritime sector?
- What are the barriers for the implementation of environmentally friendly technologies notably on existing ocean going vessels?

13.00 – 14.30 **Lunch break**

14.30 – 16.00 **Session 3. Private sector initiatives**

This session aims to allow private stakeholders including representatives from shipping, shipbuilding, repairing, and ship machinery industries to give their views on the impact of international, regional and national policies on their activities.

- Presentation by **Mr. Simon Bennett, Director Policy & External Relations International Chamber of Shipping** on Progress towards an environmentally sustainable shipping industry.
- Presentation by **Mr. Hiroshi Iwamoto, Chairman of International Sub-Committee, The Shipbuilders' Association of Japan (SAJ)** on the role of the Shipbuilding industry for green growth in ocean activities.
- Presentation by **Mr. Christophe Tytgat, Europe Secretary General, Shipyards' & Maritime Equipment Association, SEA Europe** on Green growth in ocean activities: the role and contribution of the European maritime technology industry.

- Presentation by **Mr. Peter Lujckx, Managing Director, Lisnave Estaleiros Navais S.A.** on the role of the ship repairing industry for green growth in ocean activities.
- Presentation by **Mr. Olivier Cadet, Executive Vice President – Products & Services, Kongsberg Maritime AS** on the concept of zero emission autonomous shipping.

Selected issues for discussion:

- What are the effects of international regulation on the sustainable growth of shipping, shipbuilding, ship repair and ship machinery industries?
- What are the main driving forces and barriers to invest in greener technologies?

16.00 – 16.30 Coffee Break

16.30 – 18.00 **Session 4. Emerging green technologies and green ocean finance**

This session aims to discuss about ship finance by public and private entities focusing on green technologies and the use of renewable energy in the maritime sector. Investment leading to greener shipping and the development of offshore wind energy is expected to increase following the introduction of environmental regulation.

- Presentation by **Mr. Tore Longva, Principal Consultant, Maritime Regulatory Affairs, DNV GL Maritime** on technology development for greener shipping.
- Presentation by **Mr. François Gaudet, Senior Banker, European Investment Bank** on the green ship loan/guarantee scheme.
- Presentation by **Mr. Alexandre Amedjian, Head of Shipping Finance for Europe, Middle East and the Americas, Société Générale** on challenges in financing for greener ships.
- Presentation by **Ms. Ariola Mbistrova, Finance Analyst, WindEurope** on offshore wind finance.

Selected issues for discussion:

- Which technologies have a significant impact on the environmental performance of vessels? How can these technologies be applied to the vessels currently in operation?
- How do financiers assess the financial performance of vessels?
- How can public financiers boost the development and adoption of environmental friendly technologies?
- What are the main challenges faced by offshore wind firms and other oceanic renewable energies?

18.00 – 19.30 Cocktail

COUNCIL
WORKING PARTY ON SHIPBUILDING

Draft Agenda: 125th Council Working Party on Shipbuilding (COUNCILWP6)

21 November, 2017
Paris, France

The WP6 meeting will be preceded by a WP6 Workshop on Green growth of maritime industries which will take place on Monday 20 November, and followed on Wednesday 22 November by the last sessions of the 2017 Green Growth and Sustainable Development (GGSD) Forum on Greening the Ocean Economy that could be of interest for WP6 delegates. The WP6 Workshop and the GGSD Forum are part of the first OECD Ocean Economy Week which also includes a Symposium on Oceans in National Income Accounts under the Innovation and Ocean Economy Project (22-23 November).

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JT03422675

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Draft Agenda: 125th Council Working Party on Shipbuilding (WP6)

**21 November 2017
Paris, France**

Tuesday, 21 November 2017

9.00-9.05	1. Adoption of the Agenda	C/WP6/A(2017)2/REV1
	<i>Action(s):</i> Delegates are invited to <i>adopt</i> the agenda.	
9.05-9.10	2. Approval of the summary record of the 124th session	C/WP6/M(2017)1
	<i>Action(s):</i> Delegates are invited to <i>adopt</i> the summary record.	
9.10-11.30	3. WP6 Instrument Review	C/WP6(2017)13 C/WP6(2017)18
	<p>Delegates gave their comments on the implementation of the thorough revision of 1983 instruments at the April 2017 WP6 meeting and in the following months in writing.</p> <p>At this meeting, the OECD Secretariat will present a background document C/WP6(2017)13 for the revision of the 1983 WP6 instruments. Following the discussion at the April 2017 WP6 meeting, this document is accompanied by a summary of the main relevant issues discussed in the context of the "policy developments" sessions of recent WP6 meetings (Room document 1) and an overview of the past negotiations of the Shipbuilding Agreement C/WP6(2017)18.</p> <p>i) Presentation by the Secretariat of the Summary of previous shipbuilding negotiations and recent changes in the shipbuilding industry C/WP6(2017)18.</p> <p>ii) Following their bilateral meeting with the Shipbuilding Division of China's Ministry of Industry and Information Technologies that took place on 12 October 2017, presentation by Japan of the main outcome of this meeting in the context of the possible participation of China in the negotiations of a new shipbuilding Instrument.</p> <p>iii) Presentation by the Secretariat of the main elements of the Discussion paper for the thorough revision of the WP6 Instruments C/WP6(2017)13 and Room Document 1</p> <p><i>Action(s):</i> Delegates are invited to <i>discuss</i> the road map as well as the scope of items to be included in the discussion on the new Instrument as mentioned in background document C/WP6(2017)13.</p>	<p>Room Document 1 on the summary of the main issues raised in the context of past Q&A sessions</p> <p>Working Paper 5/REV1 Special Negotiating Group (September 2005) Consolidated draft text of the Shipbuilding Agreement -</p>

11.30-11.45	COFFEE BREAK		
11.45-12.30	4. Peer Review		C/WP6(2017)10
		<p>Finland has been the subject of the WP6's peer review process for 2017. This item presents the final report C/WP6(2017)10 for discussion, with a view to finalising and declassifying the report.</p> <ul style="list-style-type: none"> • Presentation of the Finland's peer review by the Secretariat • Opening remarks by a WP6 delegate (to be confirmed) <p><i>Action(s):</i> Delegates are invited to <i>discuss</i> the peer review report and <i>approve</i> its declassification.</p>	
12.30-12.50	5. Ship recycling		C/WP6(2017)14
		<p>Presentation by the Secretariat of the report on ship recycling C/WP6(2017)14.</p> <p>Presentation by Mr. Kan Matsuzaki on trade union's effort for the maritime industries and notably ship recycling (to be confirmed)</p> <p><i>Action(s):</i> Delegates are invited to <i>discuss</i> the report.</p>	
12.50-13.00	6. Compensated Gross Tonnage (CGT)		
		<p>Update by the Secretariat on the status of the potential informal working group on cgt and capacity measurement.</p> <p><i>Action(s):</i> Delegates are invited to <i>exchange views</i> on cgt and capacity measurement.</p>	
13.00-14.00	LUNCH		

14.00-15.30

7. **Policy developments**

[C/WP6\(2017\)19](#)

This item provides an opportunity for delegates to share recent policy information.

Room
Document 2 on
questions and
answers
received

i) Work on State-Owned Enterprises (SOEs) in other OECD areas

- Presentation by Mr. Przemyslaw KOWALSKI, OECD Trade and Agriculture Directorate, of recent work on State-Owned Enterprises, notably the OECD Trade Policy Paper on “Bringing together international trade and investment perspectives on state enterprises”.
- Presentations by representatives from the OECD Directorate for Financial and Enterprise Affairs:
 - i) Ms. Korin KANE on size and sectoral distribution of State-Owned Enterprises
 - ii) Ms. Sara SULTAN on continued work in the area of SOEs in the Global Marketplace which involves DAF committees and input from TAD and STL.

ii) WP6 Inventory of subsidies and other support measures and report on support measures in other countries

- Presentation by OECD Secretariat of the revised proposal to extend the WP6 Inventory coverage to the provision of finance by governments (including SOEs) more widely [[C/WP6\(2017\)19](#)].

iii) Roundtable on policy developments

- Presentation by Korea on policy developments following written questions received.
- Presentation by Japan on policy developments following written questions received.
- Presentation by EU on policy developments following written questions received.

Delegates were invited to send their questions to the Secretariat by 20 October.

Action(s): Delegates are invited to *discuss* the policy developments.

15.30-16.00

8. Shipbuilding market developments

[C/WP6\(2017\)11](#)

This item provides an opportunity for delegates to share recent market information.

a) Presentation by the Secretariat of the shipbuilding market report [C/WP6\(2017\)11](#)

b) Presentation by selected economies on market developments.

- Presentation by Ms. Jenny BRAAT from SEA Europe on recent developments and prospects for the shipbuilding market.
- Presentation by Mr. Hiroshi (Dave) IWAMOTO from the Shipbuilders' Association of Japan on the analysis on how distorted market would affect sustainable growth of shipbuilding industry.

Action(s): Delegates are invited to *discuss* the market developments.

16.00-16.15

COFFEE BREAK

16.15-16.50 9. **SSU - latest developments**[C/WP6\(2017\)17](#)

WP6 delegates agreed at the April 2017 meeting to continue monitoring closely the work of the IWG and to continue the suspension of the Informal Expert Group (IEG), with further in-depth consideration to take place at the WP6 November 2017 meeting, notably accounting for the outcome of the discussions at the June 2017 meeting of the Participants to the OECD Arrangement on Export Credits.

- Presentation by a delegate on the latest deliberations of the IWG.

The WP6's Informal Expert Group (IEG) on the Sector Understanding on Export Credits for Ships (SSU) is currently suspended, pending developments in the multilateral export credit discussions taking place under the International Working Group (IWG). This item offers delegates the opportunity to share information on the IWG's deliberations, with a view to decide on the IEG's status.

- At the 124th session of the WP6, it was considered possible to discuss a potential revision of the SSU at a WP6 meeting if all Participants to the SSU including the two countries which are not WP6 members (Australia and New Zealand) were invited to participate to this discussion. The OECD Secretariat will present Possible Amendments of the Sector Understanding on Export Credits for Ships [C/WP6\(2017\)17](#). This document describes proposals to include: 1) current CIRR (minimum interest rate) provisions of the 2017 Arrangement on Officially Supported Export Credits in the Sector Understanding on Export Credits for Ships; and 2) Mobile Offshore Units in the SSU scope.
- Presentation by Ms. Juliette SCHLEICH and Mr. Michael GONTER, OECD Trade and Agriculture Directorate
- Presentation by the WP6 Secretariat

Action(s): SSU Participants are invited to

- i) *share* information
- ii) *discuss* the potential amendment of the article 2a) and the potential addition of new articles 6 and 7 in the SSU.
- iii) *decide* whether to continue the suspension of the IEG.

16.50-17.20 **10. Discussion of 2018 Outputs and initial discussion on the PWB for 2019-20** [C/WP6\(2017\)15](#)

This agenda item is dedicated to an initial discussion of the PWB for 2019-20 and to discussion of the WP6's work in 2018, starting with a presentation by the OECD Secretariat on the following items:

- Outcomes of the 2018 WP6 workshop on green growth of maritime industries
- Introduction of the 2018 peer review
- Planned schedule for the WP6 projects in 2018

Action(s): Delegates are invited to *discuss* the ongoing and future WP6 projects and the PWB for 2019-20.

17.20-17.25 **11. Designation of the WP6 Bureau for 2018**

Action(s): Delegates are asked to *confirm* their 2018 Chair and Bureau.

17.25-17.30 **12. Other business**

17.30-17.35 **13. Dates of next meeting**

- WP6 meeting on Tuesday, 15 May and Wednesday, 16 May 2018
- WP6 Workshop* on Thursday, 29 November 2018, followed by a WP6 meeting on Friday, 30 November 2018.

* Depending on the progress made on the new WP6 instrument, the 2018 workshop may be cancelled and replaced by a session dedicated to the negotiations of the instrument.

Action(s): Delegates are invited to *note* the dates of the next meetings.

17.35-18.00 14. **Renewal of the WP6 mandate – initial discussion**

[C/WP6\(2017\)12](#)

[This item is open to WP6 members, full participants and regular observers only]

The mandate of the Council Working Party on Shipbuilding (WP6) was last renewed in 2013 and expires on 31 December 2018. For the work of the group to continue beyond 2018, its mandate must be reviewed and renewed.

The process to be followed for the WP6's mandate renewal is the following: the WP6 must submit a proposal to the OECD Council prior to the end of 2018, incorporating a suggested renewed (revised) WP6 mandate and the rationale for the suggested mandate text. Council approval of the renewed (revised) WP6 mandate is required for the WP6 to continue post-2018.

i) Introduction and summary of views received to date from WP6 delegates – presentation by the Secretariat

ii) Discussion of issues raised in the discussion paper [C/WP6\(2017\)12](#)

Action(s): This item is for discussion.

Close of meeting

18.00-19.30 - Cocktail jointly organised with the Forum on Green Growth and Sustainable Development

肆、工作內容

本次會議首先由 OECD 「WP6」 主席由常駐經濟合作暨發展組織 (Organization for Economic Co-operation and Development, OECD) 的挪威代表及 WP6 主席 Olav Myklebust 先生，簡短致詞歡迎會員國以及非會員國參加此次會議，隨即展開 2 天的會議。

一、 11 月 20 日召開 OECD 「造船專題研討會(Workshop)」

主題為「海事產業之綠色成長」(Green Growth of Maritime Industry)，研討會有助於更好地了解政府可以發揮哪些作用來幫助發展更綠色的海事產業。會議特別讓參與者討論海事產業如何處理環境挑戰，以及投資綠色技術的主要動力和障礙是什麼。

會議共有 4 個議程進行議題之相互討論：

Session1:國際上綠化海事產業之努力(International efforts for greening maritime industries)

本會議旨在更好地了解海事產業解決環境挑戰之國際性努力。特別是國際海事組織(IMO)通過實施溫室氣體排放措施、空氣污染和侵入性水生物種擴展等措施上發揮了重要作用，推動了船東對綠色技術的投資，以及供應廠商更多之研發工作。邀請以下專家學者進行簡報：

- (一) University of British Columbia 高級研究員 Jane Lister 介紹「透過更好地管理可持續海運，實現更環保的航運」。
- (二) 國際海事組織 (IMO) Mr. Camille Bourgeon 介紹「IMO 在保護海洋環境方面最新事態發展」
- (三) Mr. Merijn Hougee 介紹「清潔航運指數 (CSI) 評估船舶和航運公司之環境效能」
- (四) 國際能源署(IEA) Ms. Renske Schuitmaker 介紹「IEA 之航運脫碳分析」

Session2:區域/國家政策在促進綠色船舶建造和營運之措施 (Regional and national policies and measures to promote construction and operation of greener vessels)

本會議目的是討論促進綠色船舶建造和營運之區域和國家政策，包括 OECD 秘書處和部分政府代表之簡報介紹；議程討論了政府在促進（超標準）綠色船舶建造和營運以及促進海事產業創新方面之作用。

- (一)OECD 秘書處 Mr. Laurent C. Daniel 及 Mr. Kei Ito 介紹「區域和國家層級在促進綠色船舶建造和營運措施之分析」。
- (二)丹麥海事管理局海事研究所主任 Mr. Mogens Schrøder Bech, 從丹麥海事管理局的角度關於航運綠色技術創新之觀點。
- (三)土耳其交通、海事、通信部部長 Mr. Ö.Umut Şentürk 介紹「土耳其船舶建造和拆解計劃及其對促進更環保航運之影響」。
- (四)韓國工業技術評估研究所（KEIT）,造船計畫主持人 Yongsuk Suh 博士介紹「韓國建造綠色船舶之近期努力」。

Session3:私人領域之新措施(Private sector initiatives)

本會議旨在讓包括造船、維修和船舶機械產業代表在內的私人利益方，就國際、區域和國家政策對其活動的影響發表意見。

- (一) 國際航運商會(International Chamber of Shipping)政策及對外關係總監 Simon Bennett 先生介紹「關朝向環境永續航運產業的進展」。
- (二)日本造船協會介紹「造船產業在海洋活動中綠色成長之角色」。
- (三)歐洲船廠和海事裝備協會(SEA Europe)歐洲秘書長 Christophe Tytgat 先生介紹「關於海洋活動的綠色增長：歐洲海事技術產業的角色及貢獻」。

(四)Mr. Peter Luijckx 介紹「船舶維修產業在海洋活動中綠色成長之角色」。

(五)Kongsberg Maritime AS 公司產品與服務執行副總裁 Olivier Cadet 先生介紹「零排放自主航運之概念」。

Session4:新興綠色科技及綠色海洋金融(Emerging Green Technologies and Green Ocean finances)

本會議目的是討論公共和私人實體之船舶融資，重點是綠色技術和在海事領域再生能源之使用。隨著環境法規的採用，預計引導更環保航運和離岸風能發展的投資將會增加。邀請以下專家學者進行簡報：

- (一)DNV GL Maritime 之 Mr. Tore Longva 介紹「綠色船舶之科技發展」。
- (二)歐洲投資銀行 Mr. François Gaudet 介紹「綠色船舶貸款/擔保計劃」。
- (三)法國興業銀行(Societe Generale)歐洲、中東及美洲的航運融資部主管 Mr. Alexandre Amedjian 介紹「更環保船舶融資之挑戰」
- (四)歐洲風能協會 Ms. Ariola Mbistrova 介紹「離岸風電之融資」

二、11月21日召開第125次「造船工作小組(WP6)會議」

會議首先，各國代表一致通過本次會議議程(agenda)及 WP6 第 124 次會議的會議結論與摘要記錄。

會議共進行下列議題之相互討論：

(一)WP6 工具檢視(WP6 Instrument Review)

各國代表們就 2017 年 4 月 WP6 會議針對 1983 年工具徹底修訂之實施，並於幾個月後以書面方式給予意見。OECD 秘書處將提交一份有關 1983 年 WP6 工具修正版之背景文件 -C/WP6(2017)13。根據代表的要求，本文件包含有關於最近 WP6 會議”政策發展”內容之主要相關議題討論之摘要，並概述了過去的造船協議談判-C/WP6(2017)18。秘書處介紹了以前造船

談判摘要和造船業近期變化。另外日本於 2017 年 10 月 12 日與中國工業和信息化部造船司舉行雙邊會議之後，於本次會議介紹該次會議的主要成果，表示中國可能參與新造船法律工具談判。

(二)同儕檢視(Peer review)

芬蘭為 2017 年 WP6 同儕檢視之主題，該項目提供該國最終版產業報告，以便大家討論並確認報告及解密，並由秘書處進行芬蘭同儕檢視之簡報。

(三)船舶回收(Ship recycling)

秘書處對於船舶回收進行簡報，此外 Kan Matsuzaki 先生簡報海事產業特別是船舶回收所做的努力。

(四)修正總噸(Cgt)

秘書處更新關於非正式工作小組於CGT及造船產能計算之情況。

(五)船舶政策發展(Policy developments)

本項目為代表們提供了分享最新政策訊息的機會，共有三個次主題：

1.在 OECD 其他領域於國營企業議題之工作

OECD 貿易和農業局 Przemyslaw KOWALSKI 先生關於國營企業近期工作的介紹，特別是 OECD 貿易政策文件”一起將國際貿易及投資角度帶入國營企業中“。另外 OECD 金融和企業事務局代表進行以下 2 個簡報：(1) Korin KANE 女士關於國營企業的規模和領域分佈(2) Sara SULTAN 女士在全球市場中的國營企業領域之持續工作，這涉及到 DAF 委員會和 TAD 和 STI 的投入。

2.WP6 補貼清單和其他支持措施，並報告其他國家的支持措施

OECD 秘書處修訂建議為將 WP6 清單覆蓋範圍擴大到政府(包括國營企業)更廣泛財政之提供項目。

3.政策發展之圓桌討論

南韓根據收到的書面問題，進行政策發展簡報。日本根據收到的書面問題，進行政策發展簡報。歐盟根據收到的書面問題，進行政策發展簡報。

(六)造船市場發展(Shipbuilding market developments)

本項提供代表們提供了分享最新市場訊息的機會。共有二個次主題：

- 1.秘書處於造船市場報告之簡報
- 2.選定之經濟體對市場發展情況之簡報

首先由 SEA Europe 公司 Jenny BRAAT 女士介紹近期造船市場的發展情況和前景。接著由日本造船協會 Hiroshi IWAMOTO 先生關於扭曲市場如何影響造船產業永續成長之分析報告。

(七)船舶出口信貸瞭解書--最新發展 (SSU- Sector Understanding on Export credits for ships – latest development)」

WP6 代表們在 2017 年 4 月的會議上同意，繼續密切監測 IWG 的工作，並繼續暫停非正式專家小組 (IEG)，並在 2017 年 11 月 6 日的會議上進一步深入審議，特別是 2017 年 6 月會議中與會者對 OECD 出口信貸安排有關會計的討論結果。在國際工作小組(IWG)人員下，WP6 非正式專家小組(IEG)的專家學者目前暫停了船舶出口信貸瞭解書(SSU)及多邊出口信貸討論之進展。該項目為代表們提供了分享 IWG 審議情況的機會，以便決定 IEG 的地位。

另外在 WP6 第 124 屆會議上，考慮如果所有參加 SSU 的參與者（包括非 WP6 成員國的兩個國家(澳大利亞和紐西蘭) 都被邀請參加這議題的討論，則在此會議上進行 SSU 潛在修訂的討論。OECD 秘書處將提交“船舶出口信貸瞭解書 C/ WP6 (2017) 17”的可能修訂版本。本文件描述的建議包括：

- 1.關於船舶出口信貸瞭解書，2017 年官方支持出口信貸安排之當前 CIRR(最低利率)條款
- 2.SSU 範圍內之移動離岸平台：OECD 貿易和農業董事 Juliette SCHLEICH 女士和 Michael GONTER 先生進行了相關簡報。

(八)2018 年產出討論及 2019~20 工作計劃和預算初步討論

(Discussion of 2018 Outputs and initial discussion on the PWB for 2019-20)

本議程項目致力於對 2019-2020 年度“工作計劃和預算”進行初步討論，並討論 WP6 在 2018 年的工作，首先由 OECD 秘書處介紹以下項目：

- 1.2018 WP6 海事產業綠色成長專題研討會成果
- 2.介紹 2018 年之同儕檢視
- 3.WP6 計畫時間表

(九)2018 年 WP6 局處其新任主席及 WP6 小組成員之遴選

(Designation of the WP6 Bureau for 2018)

(十)其他事項 (Other business)

(十一)下次會議日期 (Date of next meeting)

2018 年 5 月 15 日(三) 為第一次 WP6 研討會，再來是 2018

年 11 月 29 日(四)的 WP6 專題研討會，其後是 2018 年 11 月 30 日(五)之 WP6 會議。

三、會議活動照片



OECD 巴黎總部



WP6 會議主席 Mr. Olav Myklebust (右一)



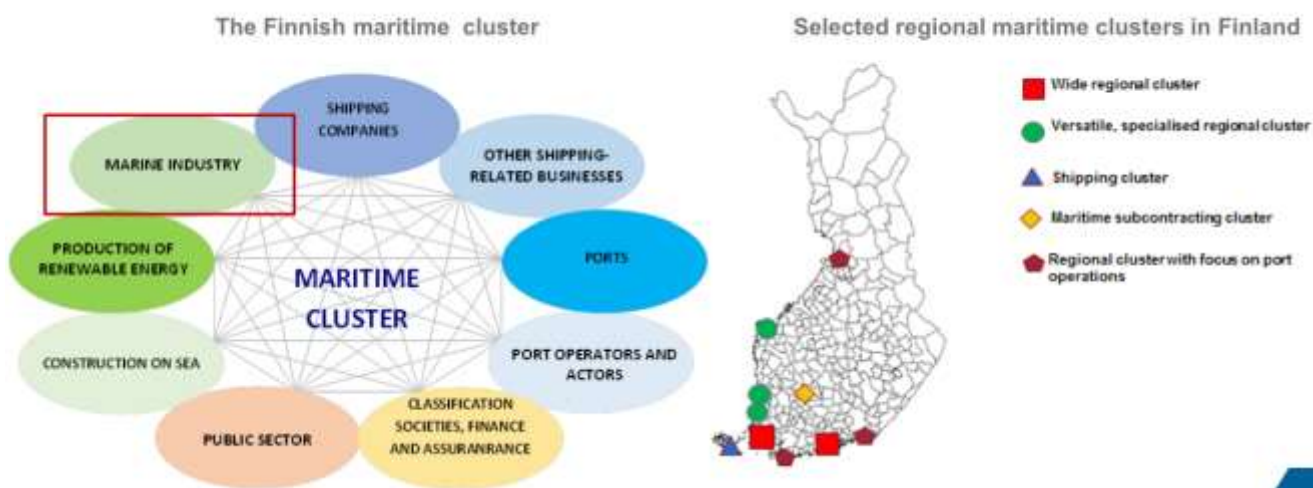
會議開會狀況

各項議程及專題之報告、說明及討論，重要內容如下敘述：

芬蘭海事與造船產業之同儕檢視(PEER REVIEW OF THE FINNISH MARINE & SHIPBUILDING INDUSTRY)

該議題主要包含芬蘭海事產業的特色及政府政策，前者包含產業輪廓和結構、財務績效和就業及教育、科技與研發、產業發展趨勢與挑戰。

芬蘭海事與造船產業作為其廣泛海事聚落之一部份，產值約佔 2015 年 GDP 之 2%，整體海事聚落結構如下圖所示，主要集中在南部，有航運聚落、海事聚落等等。



2015 年海事產業佔約 80 億歐元的營業額（佔聚落總數的 60% 收入），包括近 870 家公司。造船產業作為海事產業的一部份，產值約 10 億歐元，（佔聚落總數近 8% 收入）；在 2016 年芬蘭為第 17 大造船國，產量為 12.2 萬 CGT，佔世界份額約 0.34%，在船舶設備及系統供應上佔有重要地位，同時也專精於改裝及維修工作；近來專注於如新一代的雙燃料 LNG 主機、輕構船舶及，高效能推進系統之綠色創新。

在專業船舶方面具有高度競爭力，如”北極專業船舶中心”-佔有全球破冰船 70% 建造份額，另外僅次於意大利、德

國和法國之第四大郵輪生產國。截至 2017 年 4 月，芬蘭(Meyer Turku 船廠)在全球郵輪 76 艘訂單簿中擁有 9 艘訂單(約佔全球的 12%)。

造船產業現況：自 2010 年以來 5 個主要船廠為 Meyer Turku、RMC、Arctech、Technip Offshore 及 Uudenkaupungin Työvene 船廠。STX 船廠於 2014 年關閉後建立 RMC，Rauma 市擁有土地和海域所有權，而與 STX 保留智財權(隨後出售給 Mayer 家族)。在船舶維修產業方面，擁有 2 間專業維修廠：Turku Repair Yard 公司及 Naantali and Oy Western 船廠。芬蘭主要船廠大部分或全部由外資擁有，例如德國 Mayer 家族的 Meyer Turku 及俄羅斯聯合造船公司的 Arctech 船廠。

芬蘭海事聚落在財務、就業與教育方面，整體營業額在 2015 年回升至 80 億歐元(2010 年為最低約 65 億歐元)。海事產業在聚落中擁有最高營業額，但毛利率自 2009 年以來為最低，約 7%；2015 年，海事產業僱用約 28,800 名員工(約 2% 全部勞動力和 60% 的海事聚落份額)，造船產業約 2800 名員工(近 10% 的海事產業員工)。另外產業與科研機構、大學(例如在 Aalto 大學之海事科技研究)和供應商之間也維持重要的聯繫。產業具挑戰性，吸引著高技能工程師和技術人員。

在研發方面，由於產業的創新增加國際之競爭力，海事聚落中的 24 家公司在美國於 2000-2014 年之間申請了 102 項的專利；在 2000-2016 年間 72 家公司於歐洲專利局(EPO, European Patent Office)申請與船舶相關類別共 231 項專利，大部分船用設備供應公司為申請人，如 Wärtsilä、Evac、ABB、Aker Arctic Technolgy 等公司，也包含了 Meyer Turku 船廠。申請專利的類別比例為：客房(27%)、貨物裝卸(15%)、傳動系統(14%)、主機(9%)、對抗油污(8%)等項目。

目前產業的趨勢及面臨的挑戰如下:

1.更嚴苛之海事環境法規

- (1) 預估新的海事法規將造成投資成本的增加，如 MARPOL 附則 IV、V、VI 及第 4 章附件 VI、壓載水公約和歐盟硫物指引之修正和修訂。
- (2) 對現有中型散貨船的預計投資成本可能達到約 450 萬歐元。
- (3) 對於現有客/車渡輪，用於重燃油(HFO: heavy fuel oil)船舶估計金額為近 900 萬歐元，氣油(MGO : marine gas oil)船舶約 50 萬歐元。新造船的投資成本對於重燃油船舶可能達到約 700 萬歐元，氣油船舶約為 220 萬歐元。

2.產業挑戰

- (1) 芬蘭為高成本國家（比其它歐盟 28 國每小時高出 10% 的人力成本），需要採用自動化、機器化、數字化以提高投資成本效益。
- (2) 由於預期經濟成長需要訓練有素的勞動力，因此教育項目需要更多的投資。
- (3) 國際競爭日益激烈，如中國政府透過“中國製造 2025”策略引導該國進入遊輪市場的計劃，將影響芬蘭在郵輪、客船和商船之高附加價值利基市場。

因此芬蘭提出 2014-2022 年海事運輸戰略 (Maritime Transport Strategy)，已於 2014 年 9 月推出，為海事產業高度包容性之戰略計畫，內容包含加強海事聚群合作、改善船舶投資之融資機會、開發替代燃料解決方案、通過 IMO 尋求製訂

適當國際法規、 加強雙邊國際合作和公私部門之伙伴關係。

船舶回收(Ship Recycling)

全球船舶回收產業的現況，前 5 個回收國家已經超過 10 年佔全球的 97% 船舶拆除量(demolition)，比重分別為印度 (34%)、孟加拉 (25%)、中國 (18%)、巴基斯坦 (14%) 和土耳其 (6%)。

由於僅需要較低之勞動力、環境和安全性，船舶回收紛紛轉向亞洲，但如果不是以適當和安全的方式進行的話，將面臨巨大外部負面效應；另由於場地及設施的因素也會造成船舶回收方式之差異。

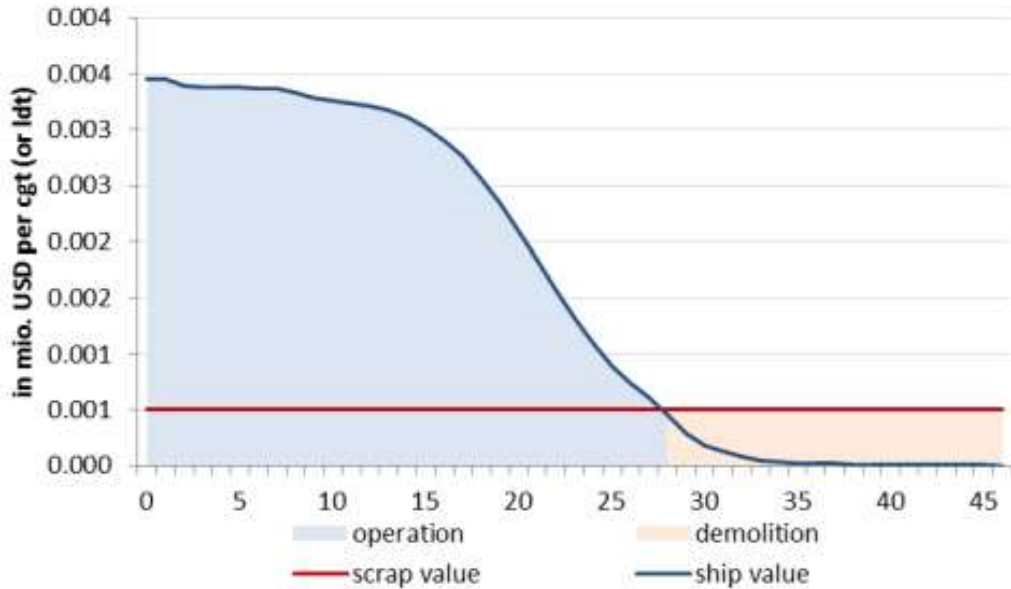
2005 年船舶年度拆除量於佔全球船隊之 0.5% 比重，到了 2012 年已經來到 3.5% 的份額，噸位數相當於從 500 萬總噸(GT) 增加至 3600 萬總噸。其中大型遠洋商船包含散貨貨船、貨櫃船、油輪及礦砂船等已達到 17.5 萬總噸。中型船舶在 2009 年至 2016 年之間拆除規模增加一倍，約從 1 萬總噸增加到 2.2 萬總噸。較為老舊船齡的船舶比較有可能被報廢，因為其未來收入淨現值較低、能源效率低落且維護費用及成本較高，船舶一般平均拆除船齡為 25 ~ 35 年，不同船型略有變化。

船舶租運市場和報廢(scrap)價格方面，租運收益和拆除機率之間的反向關係，利用船舶租運來產生收入，而不是訂購新船因為交船需等待數個月（例如在 2006 年至 2008 年間，從訂單到交船時間高達 3 年半）； 拆除與報廢價格之間的正關係：例如更高的鋼鐵價格則會增加船東進行船舶回收的意願，而增加收益。另外配合政策的要求如能效設計指數 (EEDI)，IMO 壓載水管理公約的實施，都是增加船舶報廢的原因。

船東決定船舶報廢時機的考量如下圖所示，當船舶營運(淡藍區域)至 25~30 年後，船舶價值隨之遞減(藍線)，當低於報

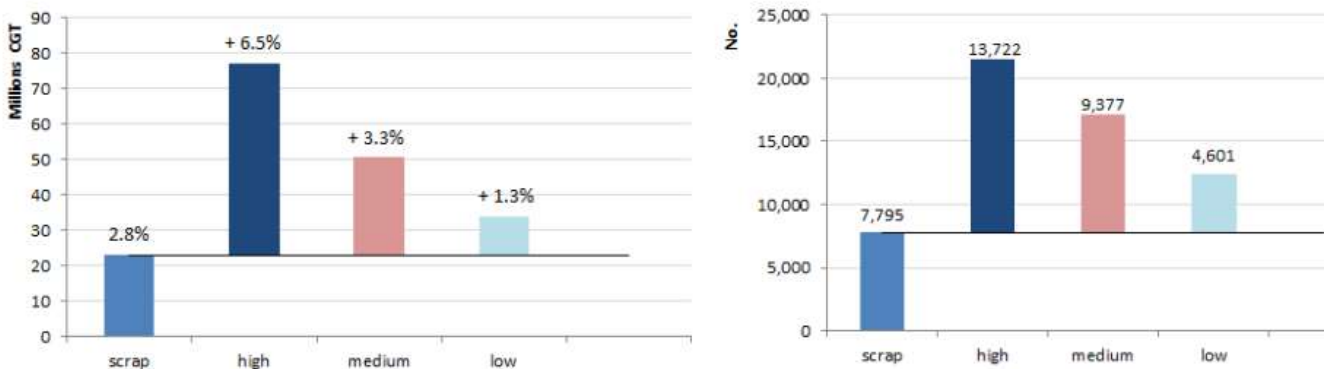
廢之價格時(紅線)，即可進行船舶之拆除(淡橘區域)。

Example of decision making process by ship owner



另外在壓艙水管理公約生效後對船舶報廢量的影響，如果將舊船加裝壓艙水管理系統的成本分為高、中、低三種狀況，則對船舶報廢數量產生不同結果，如下圖所示：在高成本壓艙水管理系統下會使得報廢數量增加到 13,722 艘，中、低成本下則會降至 9,377 及 4,601 艘左右，對應之船舶噸位量如下圖左側所示。

Estimates of demolition volumes (lhs) and no (rhs) by cost scenario



目前關於船舶拆解之相法規有國際法規-2009 年 IMO 香港公約(Hong Kong Convention) 及區域法規-2013 年歐盟船舶回收規章(EU Ship Recycling Regulation)。

IMO 香港公約締約方有義務禁止和/或限制有害物質的安裝/使用，所有船舶都必須在船上放置有害物質之特定清單(更新整至整個船舶全壽期)；“公約”下授權的船舶回收廠設備，要能夠承擔船舶所有回收活動，並制定回收計劃，概述如何預防危險狀況的計劃(例如爆炸、火災、事故、洩漏、排放等)，這些狀況包含傷害人類健康和/或環境、廢物管理、緊急情況準備和反應、工人的安全和培訓、事件、/事故/職業病之報告等。截至 2017 年 11 月，批准 HKC 的國家有比利時、法國、挪威、巴拿馬和剛果共和國，僅達到年回收量 5.6 萬總噸，但如果前 5 個大回收國能批准該公約，即可達成 1500 萬總噸之目標。

另一個歐盟船舶回收規章，則是在 HKC 基礎上，增加了健康、安全和環境(HSE) 要求、下游廢棄物管理、有害物質清單(即增加兩個物質列入於清單)和控制機制，作為制定歐盟船籍船舶(EU-flagged ship)之回收標準。

船舶回收拆船廠清單最遲於 2018 年 12 月 31 日生效，拆船廠需符合規章之標準和要求，至 2017 年 11 月為止，列入名單的有 18 個歐盟拆船廠及還有 22 個非歐盟申請者。

Ecorys / DNV /鹿特丹大學的研究中引進船舶回收許可證(Ship Recycling Licence)的概念，對船東在財務上之激勵措施，旨在避免船舶在拆解前變更船籍以規避規章之規定。

全球國營企業規模和領業務域分佈(SIZE AND SECTORAL DISTRIBUTION OF STATE-OWNED ENTERPRISES)

本議題由 OECD 金融和企業事務局 Korin KANE 女士進行關於國營企業的規模和領域分佈的簡報。

由 OECD 造船工作小組在國家所有和私有化議題上，發佈第三版國營企業(SOEs)特點之經常性審查，涵蓋 40 個國家，主要為 OECD 會員區域，但也首次將阿根廷、巴西、中國、印度和（部分）沙烏地阿拉伯等國納入。按公司價值和就業情形調查國營企業的規模，及依領域和企業形式調查其分佈狀況。

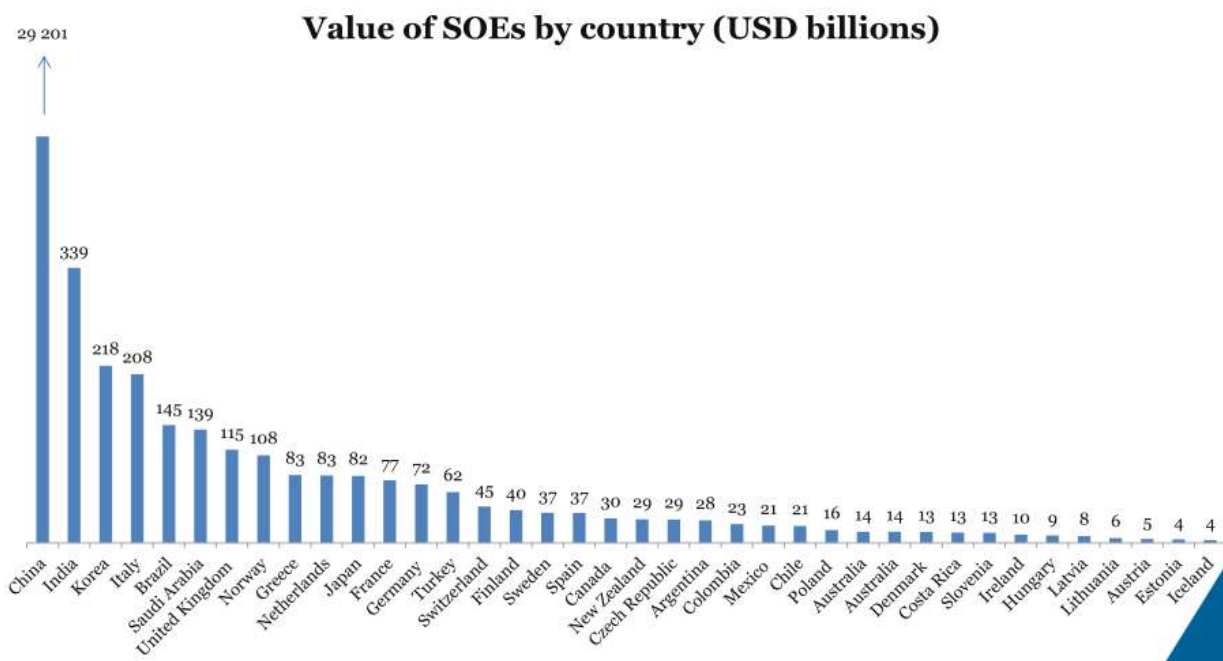
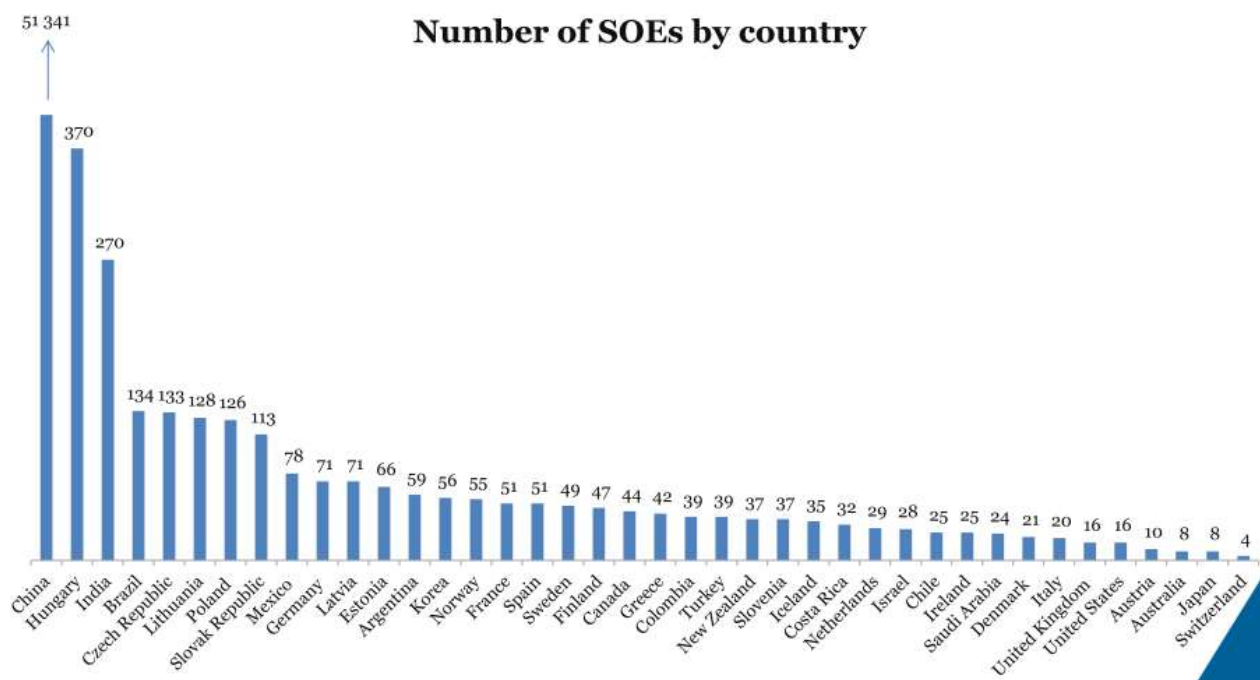
分析數據主要為參加造船工作小組在國家所有和私有化議題上，參加國家本身之報告內容及透過問卷統計而來，數據取自 2015 年年底。某些情況下，其他非政府機構也有可收集的數據如，中國之 King Parallel Consulting、實體年度報告和 2015 年國務院國有資產監督管理委員會年鑑，及印度的公共企業研究所。還有上市公司訊息 - 其中包括企業所有權、價值和就業的具體細節，或已經通過外部數據庫已驗證的資料。此外除了問卷調查外，還跟各國代表確定國家數據是否有所改變，如國家國營企業投資組合的演變（企業重組、撤資、國營企業創造等）。與上次版本的變化（2012 年數據）為擴大了地理範圍，包括第一次納入阿根廷、巴西、中國、印度和（部分）沙烏地阿拉伯等國，雖然比較數據只側重於中央政府的國營企業，中國的數據也包括地方層級的企業。

經過分析後，39 個國家(中國暫不計算在內)政府的相關數據如下：

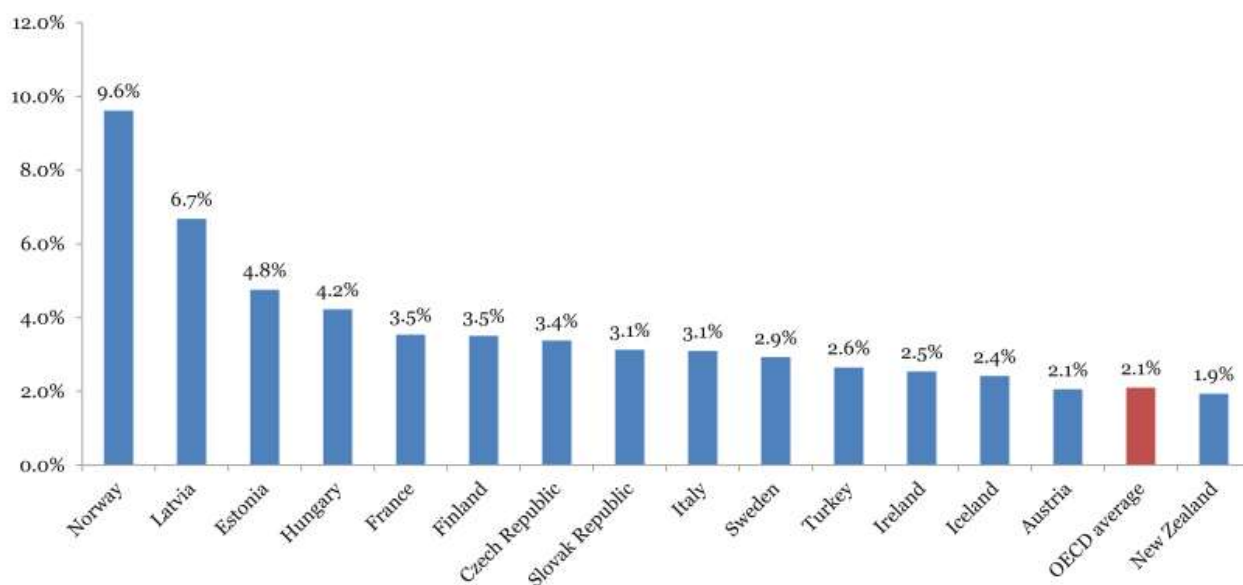
- 1.共有 2,467 家企業，平均每個國家有 63 家國營企業
- 2.總市值 2.4 兆美元，每個國家平均約 620 億美元

3.共僱用 920 多萬人，大致相當於澳洲非農業僱員總數
 而單就中國而言，其中央政府就擁有 51000 家國營企業，
 市值 29.2 兆美元，僱用約 2020 萬員工。

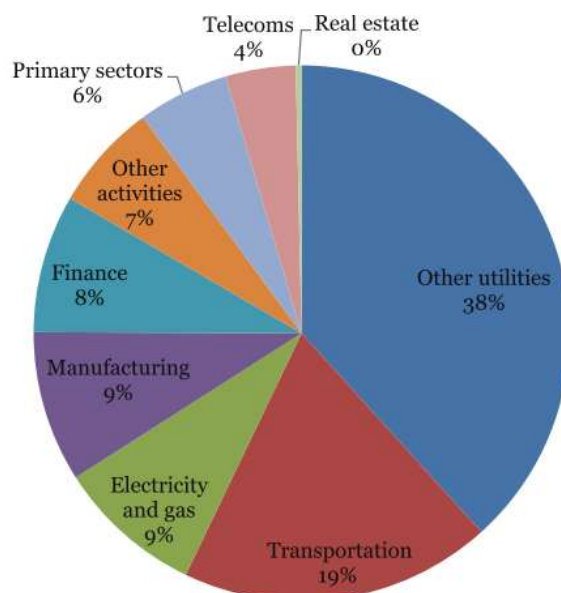
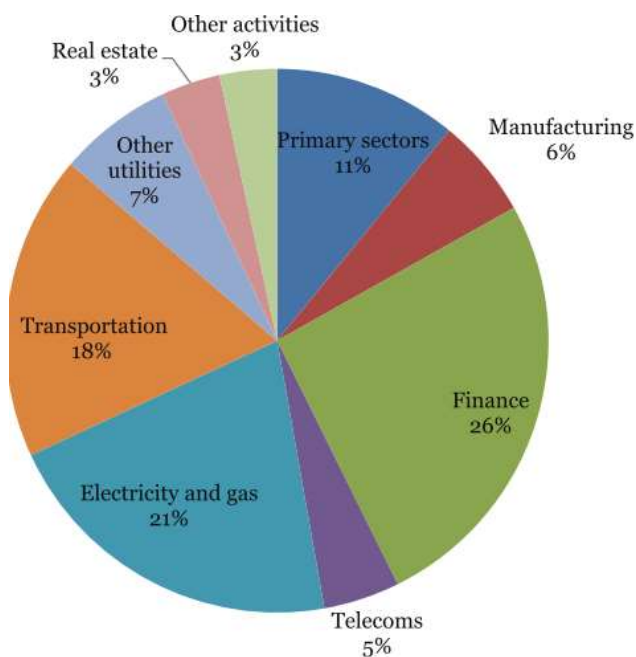
各國國營企業家數及市值排名如下二圖所示。



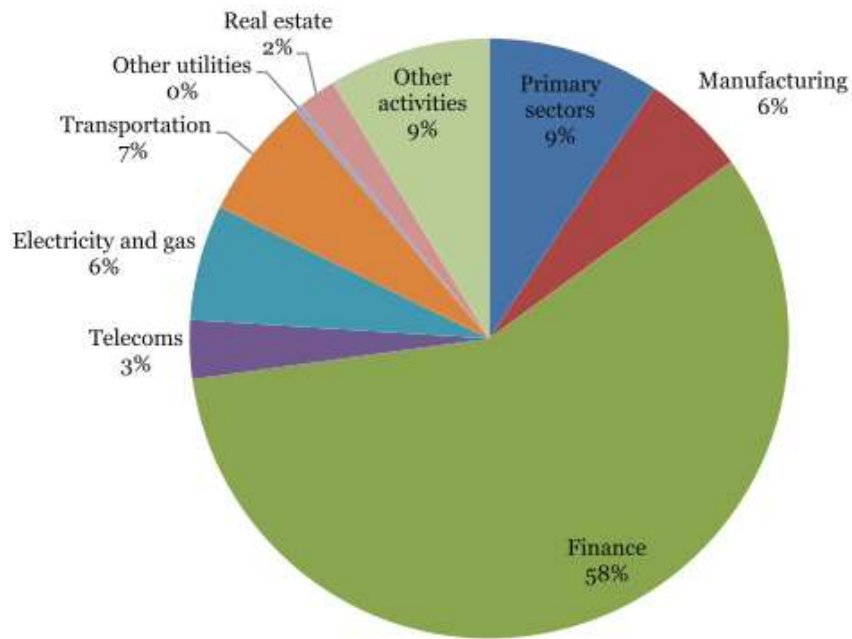
OECD 前 15 大國營企業員工佔全國員工之百分比排名如下圖，OECD 會員國平均為 2.1%。



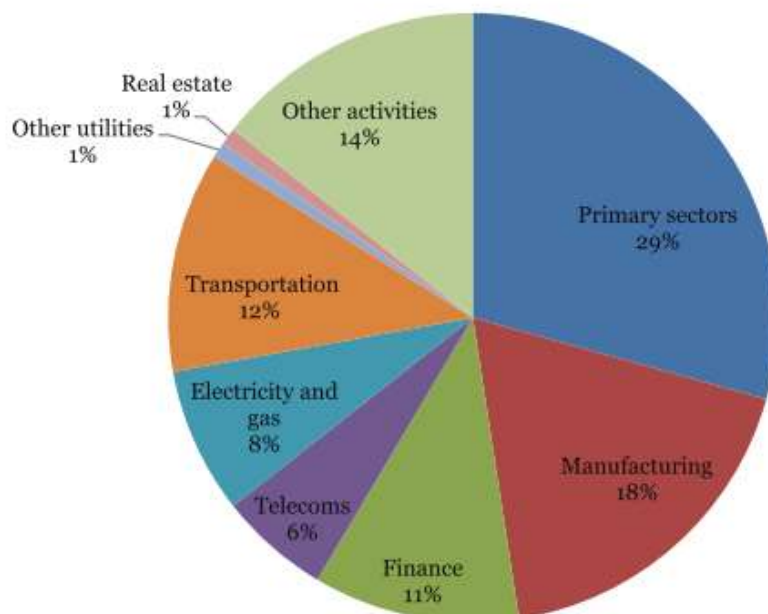
各國國營企業(不含中國)從事的業務領域依市值排名，分別為金融業 26%、電氣業 21%、運輸業 18%、基礎項目業 11% 等等，如下圖左側所示。依員工數排名，依序為運輸業 19%、電氣業 18%及製造業 18%、金融業 8%等等，如下圖右側所示。



中國國營企業從事的業務領域依市值排名，分別為金融業 58%、基礎項目業 9%、運輸業 7%、電氣業 6%及製造業 6%等等，如下圖所示。



依員工數排名，依序為基礎項目業 29%、製造業 18%、運輸業 12%、金融業 11%、電氣業 8%等等，如下圖所示。



伍、綜合結論

- (一)關於 WP6 法律工具方面，各國代表將對 1983 年工具徹底修訂給予書面意見，另根據代表的要求，秘書處提供有關 WP6 會議”政策發展”內容摘要及過去造船協議談判資料。另外日本於 2017 年 10 月 12 日與中國工業和信息化部造船司舉行雙邊會議，並於本次會議介紹討論的主要成果，表示中國可能參與新造船法律工具談判。
- (二)國際海事組織(IMO)通過實施溫室氣體排放、空氣污染和侵入性水生物種擴展等措施，推動了船東對綠色技術的投資，以及包括各國代表、造船、維修和船舶機械產業代表在內的機構單位，紛紛發表其在海事產業中扮演綠色成長之角色。
- (三)本次會議再度提到船舶回收產業之環保議題，目前有 5 個回收國家已經超過 10 年佔有全球的 97%船舶拆除量，分別為印度、孟加拉、中國、巴基斯坦和土耳其。但截至 2017 年 11 月，批准「香港公約」的國家僅有比利時、法國、挪威、巴拿馬和剛果共和國，會中呼籲各國應儘速簽署，以保障及提供拆船工人更安全、乾淨之工作場所及合理薪資待遇。
- (四)在討論船舶出口信貸瞭解書（SSU- Sector Understanding on Export credits for ships - latest development）方面，在國際工作小組(IWG)下，WP6 非正式專家小組(IEG)的專家學者目前暫停了船舶出口信貸瞭解書(SSU)及多邊出口信貸討論之進展。另外 SSU 可能修訂版本內容項目，主要包括 2017 年官方支持出口信貸安排之當前 CIRR(最低利率)條款及 SSU 範圍內之移動離岸平台(Mobil offshore unit) 等議題。
- (五)芬蘭海事與造船產業之同儕檢視其重點如下：其海事與造船產業作為其廣泛海事聚落之一部份，產值約佔 2015 年 GDP 之 2%，整體海事聚落，主要集中在南部，有航運聚落、海事聚落等等。2015 年海事產業佔約 80 億歐元的營業額，包括近 870 家公司。造船產業作為海事產業的一部份，產值約 10 億歐元，芬蘭在 2016 年為第 17 大造船國，產量為 12.2 萬 CGT，佔世界份額約 0.34%，在船舶設備及系統供應上佔有重要地位，同時也專精於改裝及維修工作；近來專注

於如新一代的雙燃料 LNG 主機、輕構船舶及，高效能推進系統之綠色創新。

陸、建議

- (一)本次 OECD 專題研討會主題為「海事產業之綠色成長」，國際海事組織(IMO)發表了「IMO 在保護海洋環境方面最新事態發展」、國際能源署(IEA)介紹「IEA 之航運脫碳分析」，還有歐洲投資銀行簡報「綠色船舶貸款/擔保計劃」以及其它國家、廠家在促進綠色船舶建造和營運之措施及角色，顯示全球海事產業相當關注此議題，會中各界提出之措施、作為及相關報告，均可作為我國政府及產業參考及借鏡的依據。
- (二)WP6 法律工具方面，各國皆希望儘速開始進行新的國際造船法律工具之談判工作，另外由於日本於 2017 年 10 月 12 日與中國工業和信息化部造船司舉行雙邊會議，並於本次會議介紹討論的主要成果，表示中國大陸可能參與新造船法律工具談判。但如果中國大陸確實與會參加，是否會對我方採取不友善之政治性舉動，值得深入考慮及進行相關沙盤推演。
- (三)OECD 造船會議討論項目包含各國政府造船政策發展、全球造船產業供需分析、造船產業出口補貼、造船工作小政策工具、綠色船舶等議題，直接關係到產業本身，除了政府單位及研究機構參與之外，國內產業之主要船廠宜積極參與這個造船產業論壇之平台，如此將能使我國在會議中扮演更積極之角色。

柒、檢附相關資料

附件一：會議正式邀請函

DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INNOVATION
Principal Administrator of the Structural Policy Division

Mr. Kun-Hsien Chung
Project Manager
Ship and Ocean Industries R&D Center

E-mail: khchung@mail.soic.org.tw

STI/SPD/17/166

Paris, 27 July 2017

Invitation to participate in the negotiations of a new international shipbuilding legal instrument (21 November 2017) and to the WP6 workshop and meeting on 20 and 21 November 2017

Dear Mr. Chung,

I am pleased to invite government representatives from Chinese Taipei to participate in the inaugural meeting on negotiations of a **new international shipbuilding legal instrument**. This meeting will take place on Tuesday, 21 November at 16h00 in Paris (please see page 5 of the attached 21 November WP6 meeting draft agenda).

- We had discussions at the previous WP6 meeting which took place on 18-19 April 2017 about the revision of the WP6 Shipbuilding instrument. WP6 delegates mentioned that it would be of great interest that non WP6 members participate in the negotiations of this new legal Instrument and some delegates suggested that the revised instrument should be legally binding. Please note that we can make special arrangements so that the discussions are facilitated by the OECD but don't take place in a WP6 session but in an **ad hoc negotiation group so that all participants are on equal footing**.

I am also pleased to invite government representatives from Chinese Taipei, together with other industry representatives to be designated by you, to participate in the **OECD Council Working Party on Shipbuilding (WP6) workshop and meeting to be held in Paris on Monday, 20 November and Tuesday, 21 November 2017**. The draft workshop and meeting agendas are attached.

- The 20 November workshop seeks to understand the impact of environmental and related (e.g. innovation) policies for maritime industries at all levels and to find solutions for promoting green growth of maritime industries. The workshop will allow participants to exchange views on how the global shipbuilding industry and other maritime industries can contribute to the implementation of the objectives of the Paris Agreement, and address other pressing environmental concerns.
- Issues to be discussed at the 21 November WP6 meeting include the Peer Review of Finland, policy and market developments, ship recycling, cgt, and export credits.

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發文字號：法經字第10600002450號

速別：最速件

密等及解密條件或保密期限：普通

附件：

主旨：陳報OECD邀請我國出席OECD造船工作小組第125次會議及相關活動，

敬請查照惠復。

說明：

- 一、依據OECD造船工作小組秘書處主管官員Mr. Laurent C. Daniel致貴局邀請函辦理(詳附件1)。
- 二、OECD頃正式邀請我國政府及業者代表，出席本(106)年11月20日舉行之「海運業綠色成長研討會」(Workshop on Green Growth of Maritime Industries)、次(21)日舉行之第125次造船工作小組(WP6)會議。會議規劃簡述如次：

(一)「海運業綠色成長研討會」：由於80%國際貿易係由經由海運業完成，爰造船相關行業及航運業在減少溫室氣體(GHG)及改善環境汙染中扮演重要角色。本研討會將邀請IMO等國際組織、智庫及機構，討論海運各行業相關之國際、區域或個別國家環境政策(包括綠色航運及船舶、綠色海洋金融等議題)之影響，及促進綠色成長之

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第1頁，共3頁



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可行方案，進而有助於落實巴黎氣候協定目標(詳附件2)。

(二)第125次造船工作小組會議：將針對芬蘭造船業相關發展進行「同儕檢視(peer review)」作業，並報告及討論補貼等政府支持措施，造船相關政策發展及市場走向、拆船業發展、標準貨船換算噸數(Cgt)計算公式、船舶出口信貸瞭解書(SSU)、造船工作小組設立授權之展延、未來工作計畫、新任主席及工作小組成員之遴選等(詳附件3)

(三)OECD法律工具(Legal Instruments)檢視作業：於11月21日下午舉行。依據前(第124次)造船工作小組會議決議，成立特別小組，討論WP6相關法律工具之執行成效及修正建議，並邀請非會員參加(詳本組本年4月26日法經字第10600001380號函)。我國亦獲邀參與本議題之討論。

三、另查，OECD於會議當週舉辦首屆OECD海洋週活動，其中11月21至22日舉行本年綠色成長及永續發展論壇(GGSD Forum)，並以「綠化海洋經濟(greening ocean economy)」為主題，屆時將呈現OECD在海洋經濟相關領域之研究成果，並邀請各領域專家共同討論聚焦於海洋相關產業之投資、創新及就業，以及與保存海洋資源及其運用相關之政策，討論包括個別國家及國際海洋產業之產能、相關科技之功能及運用、企業社會責任，以及廢棄物之管理等議題(另詳本組本年4月6日法經字第10600001210號函)。OECD造船工作小組亦為本屆論壇秘書單位之一，爰盼出席造船工作小組會議各國代表續參加論壇相關活動(詳本組前函)。有關本屆論壇簡介及報名方式，敬請卓參專屬網頁公布資訊如次：<http://www.oecd.org/greengrowth/ggsd-2017/>

四、經查OECD造船工作小組自上(105)年下半年起，會議主題開始納入海運相關議題，部分國家出席代表亦包括海運主管機關或業者代表，或值我國規劃出席會議組成名單時之參考，俾有助於擴大出席會議效益。

五、建請就前揭研討會及會議相關議題預為研議準備，並於本年9月30日前函復我國出席本次會議人員名單，俾辦理報名及協助出席會議等事宜。



正本：經濟部工業局

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附件二：各國參與單位及名單

WORKSHOP ON GREEN GROWTH OF MARITIME INDUSTRIES

OECD COUNCIL WORKING PARTY ON SHIPBUILDING (WP6)

LIST OF PARTICIPANTS

20 November 2017
OECD Conference Centre
Paris, France

 **#Shipbuilding**

**OECD Ocean Economy Week
20 – 24 November 2017**



**Participants List for Council Working Party on Shipbuilding: Workshop on
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附件三：大會發布之正式文件(部分)

C/WP6(2017)11

Shipbuilding Market Developments

**COUNCIL
WORKING PARTY ON SHIPBUILDING**

**C/WP6(2017)11
For Official Use**

Shipbuilding Market Developments

Q4 2017

**21 November 2017
Paris, France**

*This document has been prepared by the Secretariat following the discussion at the session on policy developments at the 18-19 April 2017 WP6 meeting.
Action : This document is for discussion.*

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EXECUTIVE SUMMARY

1. Shipbuilding is a cyclical industry that is affected by the evolution in the growth rate of GDP and seaborne trade. According to the OECD's September 2017 Interim Economic Outlook, world GDP growth is expected to remain relatively moderate, with a gradual improvement from 3% in 2016 to a projected 3.5% in 2017 and 3.7% in 2018. According to UNCTAD data, the pace of growth in the volume of unloaded goods has slowed from 4.4% in 2012 to 2.6% in 2016 while in 2017 seaborne trade measured in tonnes miles is expected to increase by 4.3%.

2. Other trends that are likely to affect the shipbuilding industry include the drive for improving the environmental sustainability of maritime transport as well as infrastructure works that modify traditional shipping routes. The key regulations that are expected to bear an impact on future demand for shipbuilding are: the IMO's Energy Efficiency Design Index (EEDI), the introduction of Emission Control Areas (ECA's) as well as the Ballast Water Treatment Convention (BWTC). Infrastructure works at the Suez and Panama canals have increased the capacity of transporting goods along these routes, potentially driving a demand for larger vessels.

3. The shipbuilding market is experiencing a protracted phase of contraction. As of October 2017 the amount of ships on order book appear to have reached the lowest level in more than a decade by registering a total of 76 million cgt. The market segment most affected by the decline is bulkers (-76%) followed by that of containers (-43%) and tankers (- 26%) in comparison with their respective levels of 2012. However, new shipbuilding contracting activity is slowly gathering pace in the first half of 2017, after having re-emerged from a period of very low contracting in 2016. New contracting between January 2016 and January 2017 averaged 3.5 million cgt per quarter.

4. In term of prices, the newbuilding price index seems to have slightly rebounded in the first half of 2017 in parallel with the recovery in the pace of new contracts after a period of sustained decline initiated in the second quarter of 2014.

5. Shipbuilding production in cgt is concentrated in three major economies, Korea, China and Japan. In 2016 the production of these three economies represented 86% of global production in cgt terms. Korea accounted for 34% followed by China with 32% and Japan with 20% of the global shipbuilding production, respectively. Korea was the largest producer for two of the main market segments, tankers and containers accounting for 53% of the market. With a 47% market share, China was the largest bulker producer.

6. In the current context of weak demand, capacity utilisation rates are extremely low. In 2015 capacity utilisation rates stood at 57% on average across shipbuilding economies. In 2015 capacity utilisation rates were extremely low in the European Union (35%) and China (53%) while in Japan and Korea they stood at 65%.

Introduction

7. This paper provides an overview of the recent shipbuilding market developments following the wish expressed by several WP6 delegates to discuss this topic, in addition to the usual session on policy developments. It serves as a background document for the corresponding session of the WP6 meeting on the 21st of November 2017.

Key macro drivers for the shipbuilding market

Trends in economic activity

8. Global GDP growth remained relatively stable over recent years, amounting to around 2.5% annually between 2012 and 2016. For OECD countries, growth accelerated from 1.3% in 2012 to 2.5% in 2015, before slowing down to 1.8% in 2016. In China, real GDP growth is projected to reach around 6.5% in 2017 and 6.6% in 2018, slightly down as compared to its 2016 level of 6.7%. Economic growth is being supported by large domestic and regional development projects such as the “Belt and Road” initiative and the Beijing-Hebei-Tianjin Corridor.

9. According to the OECD’s September 2017 Interim Economic Outlook, world GDP growth is expected to remain relatively moderate, with a gradual improvement from 3% in 2016 to a projected 3.5% in 2017 and 3.7% in 2018. The OECD revised its forecasts for global growth in 2017 slightly upwards compared to the 3.3% growth projected in the OECD’s March 2017 Interim Economic Outlook.

10. With the exception of the global contraction that followed the financial crisis in 2008, growth in worldwide seaborne trade has been strong in the 1990s and 2000s. However, according to UNCTAD data, the pace of growth in the volume of unloaded goods has slowed from 4.4% in 2012 to 2.6% in 2016 (UNCTAD, 2016) after a lower growth of 1.8% in 2015.

11. Using tonne miles, a measure that accounts for both the volumes and the distances covered for trading, trade has increased by 3.2% in 2016 after 1.6% in 2015 (Clarkson, 2017). In 2017, seaborne trade measured in tonnes miles is expected to increase by 4.3%.

12. The relationship between global GDP growth, global growth in trade volumes and shipbuilding demand is rather complex and changing over time. As a result, linking these trends with prospects for future shipbuilding activities poses two main challenges.

13. First, an increase in global GDP does not necessarily lead to a proportional increase in global trade. Recent studies and empirical evidence have shown that while growth in trade volumes used to double GDP growth, this relationship apparently no longer holds. Possible explanations relate to structural changes in the world economy including the increase of trade in services as compared to trade in goods, the evolving nature of global value chains with rising on shoring and risk of protectionism as well as the developments of trade through pipelines and a certain degree of production dematerialisation thanks to the advances in 3D printing technologies. Recent trends to re-shoring may well have indeed reduced the need for trade although the evidence in this regard is mixed (De Backer et al., 2016). As a result former trade-GDP elasticities may no longer be applicable and an increase in global GDP is likely to have a lower effect on the increase in trade and demand for shipping services than it was the case in the past.

14. Second, demand in shipping may not necessarily translate into higher demand for new ships. When demand for shipping is high there might be a greater tendency to continue to use older ships; these might also be used for a longer period when newbuilding prices are high. In addition, shipowners’ decision to scrap ships depends on many factors such as scrapping rates, regulation and available scrapping capacity. On the other hand, if investors are overly confident, they might order vessels in excess of real

shipping demand. However, bearing these caveats in mind, in the short run expected global GDP and trade volume growth may provide some guidance in evaluating the direction and magnitude of future shipbuilding demand.

Trends in environmental regulations

15. In recent years the impetus towards improving the environmental sustainability of maritime transport has led governments and international organisations to develop a number of environmental regulations which are likely to bear an impact on future shipbuilding demand. Depending on whether the regulations apply only to new or to existing vessels and the extent to which compliance is costly, such regulations may drive surges in retrofitting activities or increase the demand for new and more environmentally friendly vessels (OECD, 2017a). The key regulations that are likely to have an impact on future demand for shipbuilding are: the IMO's Energy Efficiency Design Index (EEDI), the introduction of Emission Control Areas (ECAs) as well as the Ballast Water Treatment Convention (BWTC) (OECD, 2017a).

16. The *Energy Efficiency Design Index* (EEDI) targets ships' CO₂ emissions by prescribing minimum efficiency levels for new vessels in terms of emissions per transported ton. Entered into force in 2013, the regulation is phased in gradually with increasingly stringent requirements for compliance. All newly built ships completed after 1 January 2013 have to comply with the initial standard. In subsequent phases all ships, regardless of their year of built, would have to comply with the regulation. The minimum efficiency standard will become more stringent to ensure that CO₂ emissions will be reduced by 10% in each implementation phase. Compliance with the EEDI regulation may either prompt the retrofitting or the accelerated retirement of non-compliant vessels, thereby potentially increasing the demand for new ships or for retrofitting services depending on the relative costs of each operation. Moreover, improvements in engines' efficiency as well as in some design features of newly built vessels, particularly in the case of bulkers, are likely to be expected (OECD, 2017a).

17. *Emission Control Areas* (ECAs) and maximum levels of sulphur oxide (SO_x) emissions were introduced in Annex VI of MARPOL, which entered into force in July 2010 in its revised version. Ship owners have different ways to comply with the regulation, including cleaning of exhaust gases before emitting them into the atmosphere or using fuels with lower sulphur concentration. Traditionally used Heavy Fuel Oil (HFO) has significantly higher values of sulphur content than other fuels like LNG. As such, Emission Control Areas are likely to incentivise the purchase of LNG fuelled vessels, and prompt the development of more environmentally compliant engines.

18. The *Ballast Water Treatment Convention* became effective in September 2017. Its goal is to stop the spread of invasive aquatic species that are unintentionally displaced through ballast water discharge. Until 2024 the latest, all ships that navigate outside their domestic waters would have to be equipped with Ballast Water Management Systems that would deal with such threat. Recent OECD work (OECD 2017) estimates the impact of the BWTC on scrapping activities. The estimates suggest that, in the upcoming years, between 11 million to 54 million cgt would be scrapped as a result of the introduction of the BWTC. This policy is likely to affect future demand for new ships depending on the extent to which scrapped vessels would be replaced by new ones.

Other trends potentially affecting the shipbuilding market

19. Furthermore, recent modernisation works at the Suez Canal were concluded in 2015 allowing for two-way traffic, thereby increasing the passage of goods along the route. Similarly, the extension of the Panama Canal, completed in 2016, allows for the passage of larger ships whose size can reach up to a maximum of 49 meters beam and of 366 meters. According to Clarkson, the impact of the expanded locks

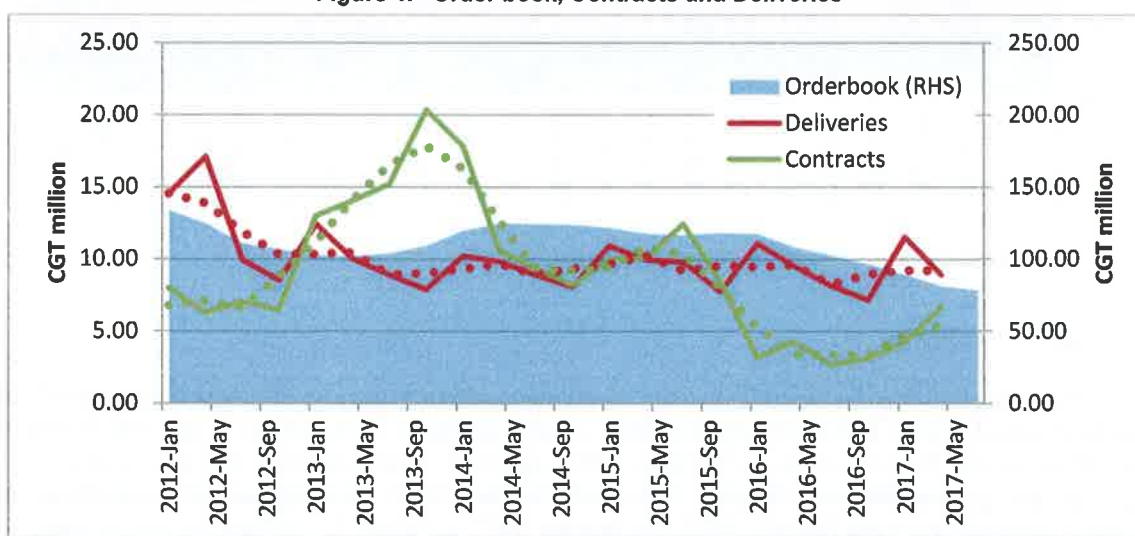
at the Panama Canal is largely in line with expectations. ‘Old Panamax’ containerships on transpacific trading routes through the canal have quickly been replaced by ‘Neo-Panamax’ vessels as companies aim to reap the economies of scale (Clarkson Research 2017). In addition, existing ships could be adapted to make use of the wider Panama Canal. Some companies have focused on widening existing containerships, for instance from around 4,900 TEU to about 6,300 TEU. The upsizing of existing vessels was shown to be technically feasible and companies may decide to opt for this solution to quickly take advantage of greater economies of scale in shipping. The choice between upsize existing vessels or purchasing new larger ones lies in the hands of ship-owners. The extent to which ship owners will be willing to bet on economies of scale will drive future demand for new larger vessels or the upsizing of existing ones.

Shipbuilding demand

Order book by ship type

20. The ships order book provides an interesting snapshot on the amount of work that shipyards are expected to deliver as well as some useful insights on the health of the shipbuilding market. As of October 2017 the amount of ships on order appear to have reached its lowest level in more than a decade by registering a total of 76 million cgt. This volume represents about a third (34%) of the order registered at the peak time in September 2008, just before the onset of the great recession, when there were orders for about 225.5 million cgt¹ corresponding to approximately 15 000 vessels². Shipyards’ order book steadily declined until 2013 while in the sub-sequent years it stabilised to a plateau of about 120 million cgt. In 2016 the size of the order book shrank again by 42 million cgt as the result of the sharp fall in new contracts that fell below deliveries and stayed lower until today.

Figure 1. Order book, Contracts and Deliveries



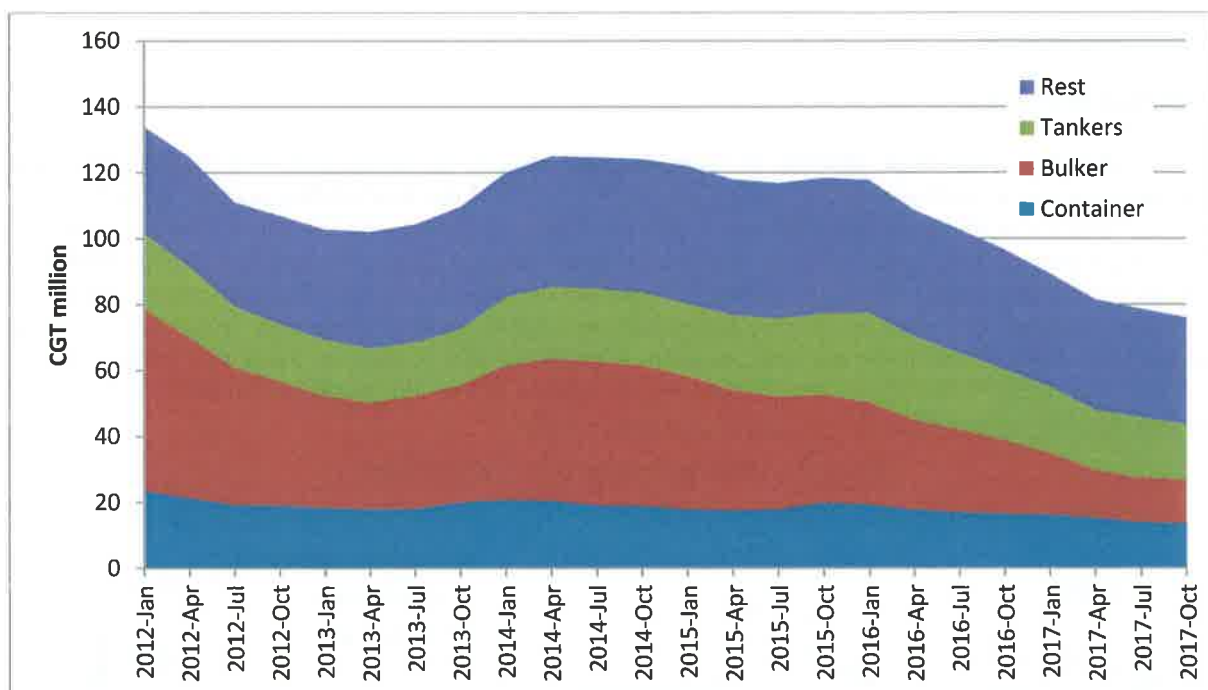
Note: Quarterly data, dotted lines show three quarters moving averages
Source: OECD's calculations based on Clarkson's World Fleet Register

¹ If measured in the number of vessels, the peak was in February 2009. As this does not account for the size of the ship, the number of ships is not a perfect indicator. Measures for the size of ships, like DWT or GT, do not account for the complexity of the ship (for instance, a cruise ship is significantly more difficult to build than a bulkier). We thus use cgt, which takes better into account ship complexity as well as the necessary amount of labour to build it.

² Vessels are registered in the database from 100 GT upward.

21. The general picture of a considerable decline in the order book holds since 2012 for the three main ship types (bulkers, tankers and container ships). However, differences exist in the extent to which the different vessel types are affected by the decline. In comparison with that of other ship types, the order book for tankers seems to have been affected the least by the overall, with a 26% decrease in comparison to its 2012 levels in cgt terms. On the contrary, the order book for bulkers experienced the most significant decline by dropping 76% in the period considered. The container-ship sector registered a drop of 43% compared to the 2012 levels.

Figure 2. Order book by main ship segments



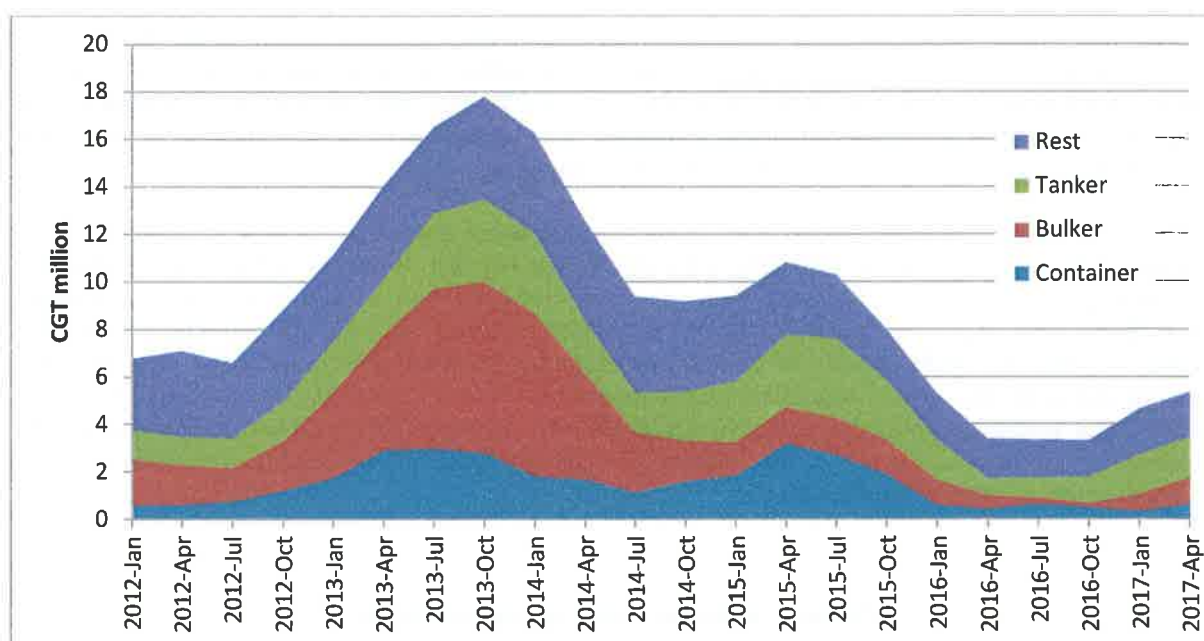
Source: OECD's calculations based on Clarkson's World Fleet Register

New contracts by ship type

22. New shipbuilding contracting activity is slowly gathering pace in the first half of 2017 after having re-emerged from a period of very low level of new orders in 2016 similar to that which followed the unfolding of the financial crisis in between 2008 and 2009 where contracts for an average of 4.48 million cgt per quarter between October 2008 and October 2009 were signed. In comparison, new contracting activities between January 2016 and January 2017 averaged 3.5 million cgt per quarter. New contracting activity is, in fact, very cyclical as depicted in figure 3. To illustrate, in the last 5 years, new contracts measured in cgt peaked in October 2013 when new contracts for 20.3 million cgt were issued in the preceding quarter.³ The lowest level of new contracts was registered in July 2016 with only 2.7 million cgt signed in the preceding quarter. When looking at ship types, it is interesting to notice the quasi-disappearance of new contracts for bulkers and containers in 2016 and their slow re-emergence in 2017.

³ Quarterly data is used because there is no value for some months if monthly data. In some cases no contracts are registered for some months. As a flow variable, values are per se quite volatile. The data represented in figure 3 the graph is a centered three quarters moving average in order to facilitate the recognition of trends.

Figure 3. New contracts for main ship types



Source: OECD's calculations based on Clarkson's World Fleet Register

Non-deliveries and cancellations

23. The rate of current non-deliveries (deliveries after the scheduled date of delivery) is around 32% (Clarkson research, 2017). In a market where capacity is underutilized, such a relatively high level of non-deliveries appears counterintuitive as in downturns, one could expect that lower levels of orders facilitate on-time completion.

24. The existence of non-deliveries in a depressed market may hint at the existence of wide disparities in orders intakes and profitability across yards and a certain degree of economic inefficiency in the bidding process. More specifically if non-delivery penalties are sufficiently low, there may be incentives for yards to over-bid to ensure a profitable project pipeline. Ship owners' willingness to accept a late delivery should be decreasing when the shipping market improves and penalties for non-delivery should adjust accordingly. As a result, the non-delivery rate is likely to be high in periods of weak demand and low in periods of strong demand. Further empirical research in this area would be desirable to determine the link between non-deliveries and the shipbuilding market cycle.

Market Sentiments (Freight rates, Delivery time)

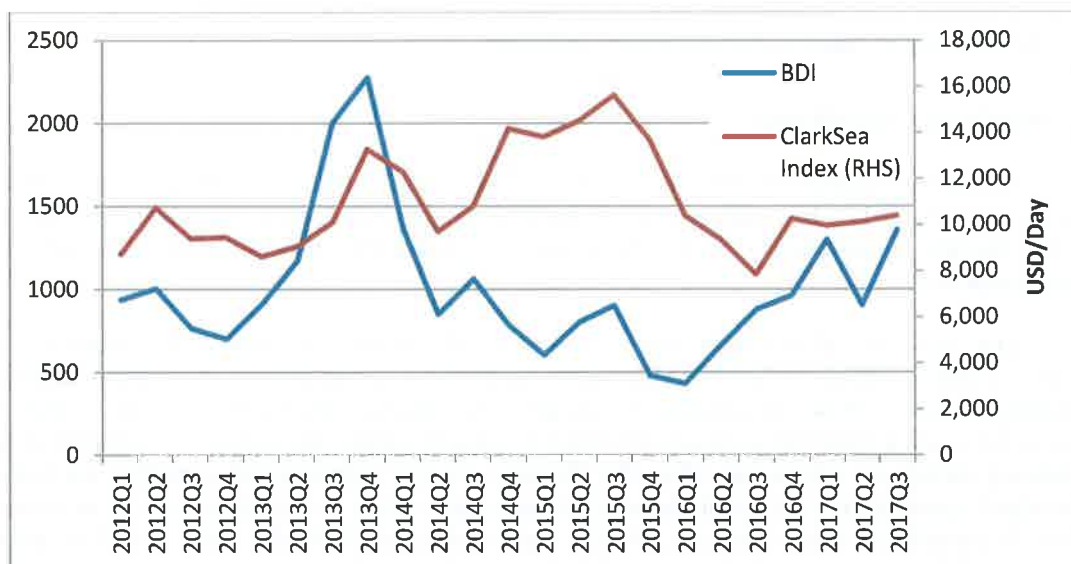
25. The shipbuilding industry has often relied on shipping market indicators to gauge the sentiment for future shipbuilding activities on the assumption that the healthier the shipping sector the better for the shipbuilding industry. However, there are some shortcomings to this approach insofar as the fluctuations in the shipping market are driven by speculation in the asset value of the ships rather than their operations on the sea. Bearing in mind these limitations, the evolution of two key shipping market indicators are presented the ClarkSea and the Baltic Dry Index.

26. The ClarkSea Index, developed and maintained by Clarkson Research, computes the weighted averages of daily earnings of shipping for the main vessel types. It provides an indication of the current

profitability of the shipping sector and therefore it can be used to gauge possible development in the shipbuilding market on the assumption that the larger the profitability the more likely ship owners would purchase new vessels. In fact, it is commonly believed in the industry that consistently higher earnings may induce more ordering of vessels in order to maximize future profits. The weighting is based on the number of ships in the respective fleet sector (Clarkson Research, 2017). The Index shows some fluctuations and, in the last five years it has registered a peak in January 2014 as well as in July 2015. As of September 2017 the index stood at approximately 30% lower level than its last peak.

27. The Baltic Dry Index, issued daily by the London Baltic Exchange, looks at the freight rates of the major shipping routes for raw materials, and it therefore extensively cover the bulker market by looking at the daily prices of Capesize, Panamax, Supramax and Handy-size bulk vessels. While based on a subset of the global fleet, the index is widely used as a market sentiment indicator for shipping as well as a leading indicator for GDP growth. In comparison with the Clarksea, Index the Baltic Dry display a relatively different trend with a significant peak registered in the last quarter of 2013 followed by a sharp decline and a seemingly upward trend starting from the first quarter of 2016. Such discrepancies may be explained by the fact that the market for bulkers, on which the Baltic dry is based, suffered from a larger decline than that of other shipping segments.

Figure 4. Baltic Dry Index and ClarkSea Index

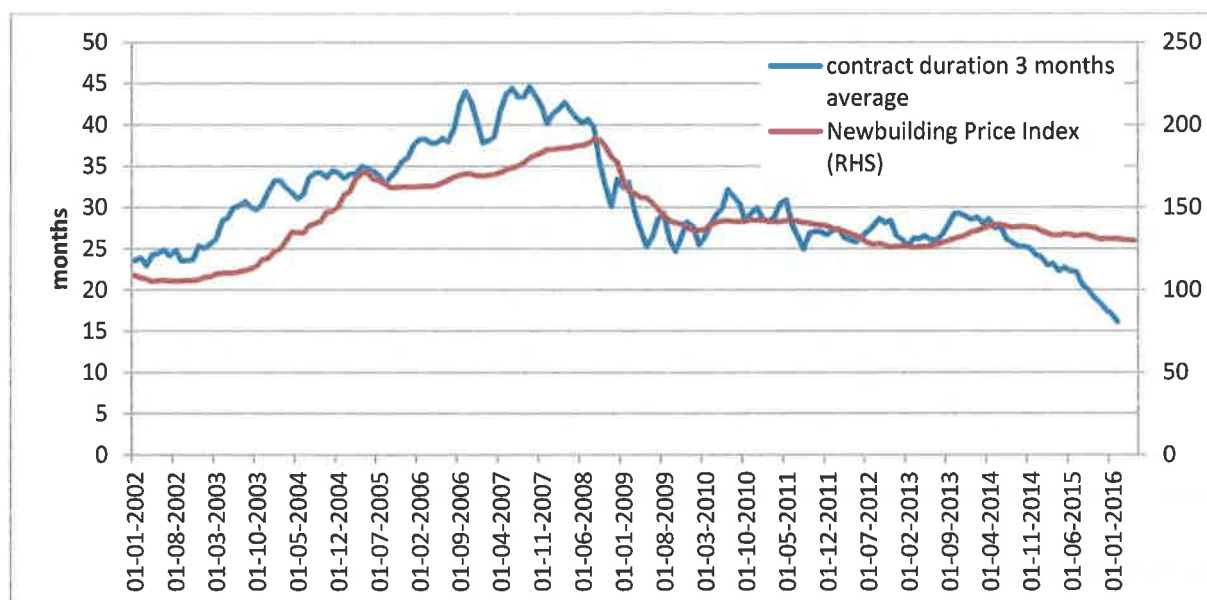


Source: OECD calculation based on data from Clarkson's Shipping Intelligence Network and Thomson Reuters Eikon, quarterly data

28. While the two indicators presented above are based on the evolution of the shipping market, and therefore limited in their predictive power for the shipbuilding industry, some experts have suggested looking at the expected delivery time (or contract duration) as a leading indicator for the shipbuilding market (Clarkson Research 2017 b). The expected delivery time may provide an overall indication of how busy shipyards are in dealing with their current order book. In boom periods delivery time is expected to increase, while in periods of low demand less busy yards should be able to deliver vessels in a shorter time frame.

29. Such theory can be verified by comparing the evolution of the delivery time (measured in months) and the trend in new building price index. Indeed, figure below shows that actual delivery time and the new building price index are well correlated. However, in order to assess whether expected contract duration can be used as a leading indicator for the shipbuilding market further analyses based on vintage series should be conducted.⁴

Figure 5. Contract duration



Source: OECD's calculations based on Clarkson's World Fleet Register and Shipping Intelligence Network

Price Developments

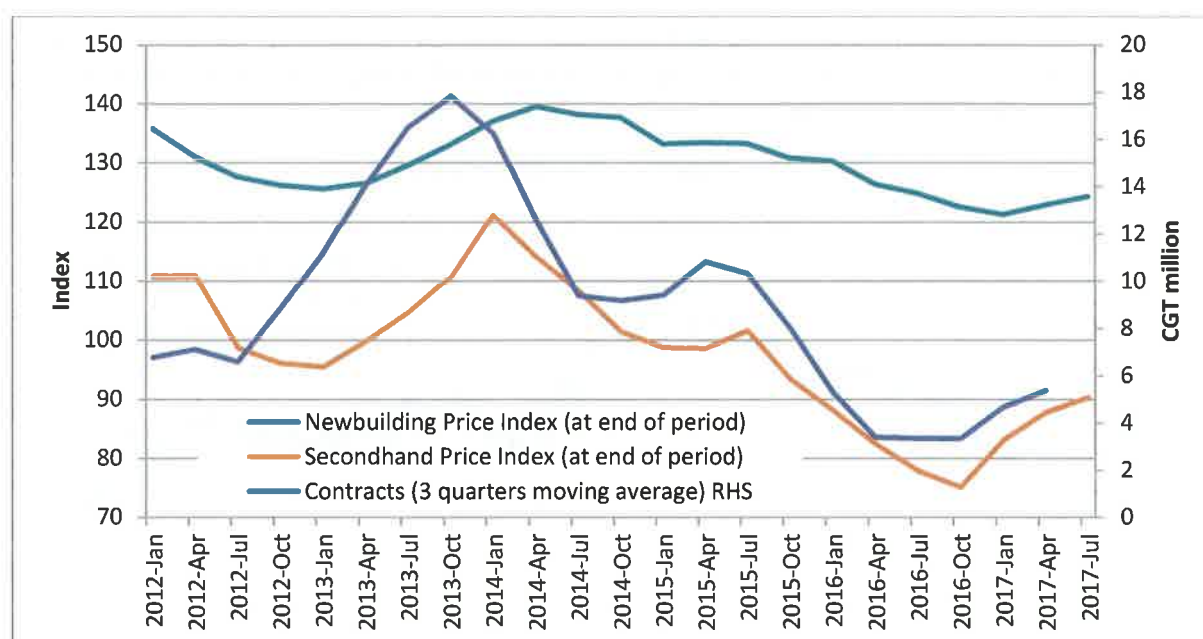
30. An indicator of the health of the shipbuilding sector is that of newbuilding prices. While contract prices for the construction of new vessels vary widely, newbuilding price indexes are useful to gauge the market and estimate the industry's profitability. The most frequently used price index, the Clarkson Newbuilding Price Index, is calculated by averaging the \$ per dwt spent on the different ship types.

31. The new building price index oscillated significantly in the last five years and started declining after the peak in January 2014. The index seems to have rebounded in the first half of 2017, most likely due to improvements in new contracts. As illustrated in figure below, the new building price index is relatively well correlated with the evolution of new contracts (with approximatively a six-month delay).

⁴

The seemingly drop in recent contract duration results from a bias in the data. Only ships that are already completed are available in the dataset and could enter the calculation.

Figure 6. Newbuilding and Secondhand Price Indexes



Source: OECD's calculations based on data from Clarkson's Shipping Intelligence Network

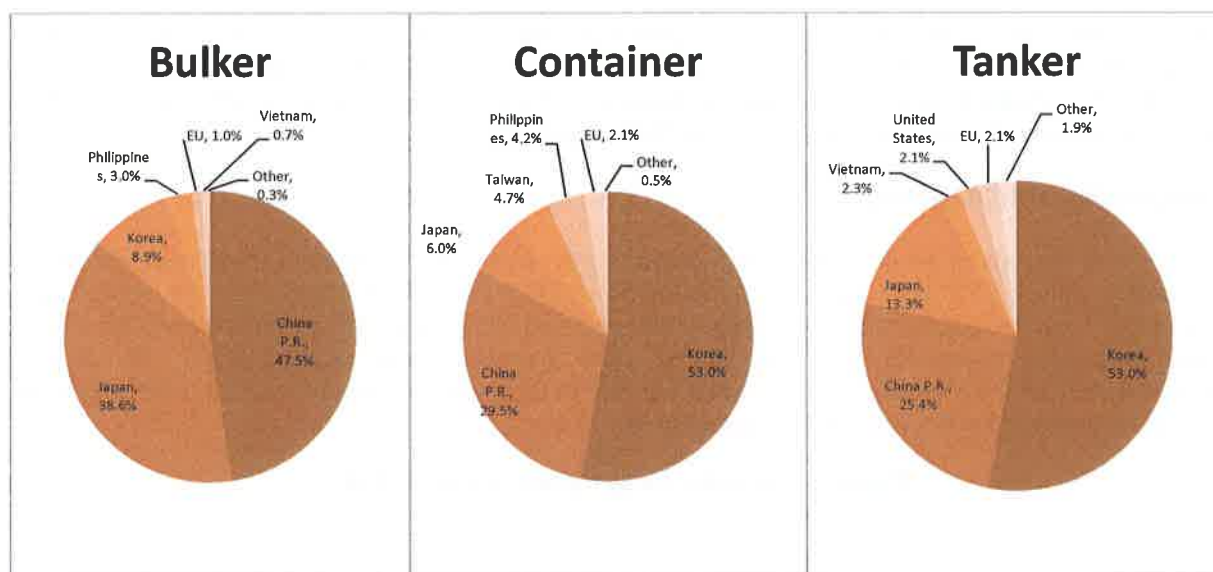
Shipbuilding supply

Market share by shipbuilding economy by ship type

32. Shipbuilding production in cgt is concentrated in three economies, Korea, China and Japan. In 2016, the production of these three economies represented 86% of global production in cgt terms, a percentage that has remained relatively stable over the last few years. What changed over the last few years, most notably from 2012 to 2016, was the relative market share of each of these economies. While in 2012 China was the major shipbuilding economy accounting for 42% of the global production, in 2016 the lead was taken over again by Korea who accounted for 34% followed by China with 32% and Japan with 20% of the global production respectively.

33. Looking at the ships delivered in 2016, Korea was the largest producer for two of the main market segments, tankers and containers, where Korean shipyards built more than half of last year's cgt. In contrast, Korea's market share in bulkers (9%) was significantly lower than that of the other two economies. With a 47% market share, China was the largest bulker producer in 2016 and held a significant share of containers as well as tankers production. Japan's competitive position relies on its strong foothold in the market for bulkers with 39% of production while its market share in containers (6%) and tankers (13%) is lower.

Figure 7. Market shares in the three main market segments



Source: OECD Calculations based on Clarkson's World Fleet Register

34. With respect to new orders Korea, Japan and China economies experienced a significant decline of more than 50% in cgt from 2015 to 2016. The EU on the other hand registered an increase of orders in cgt of 49% over the same time horizon.

35. It is also interesting to look at growth rates of cgt deliveries by country. In the period from 2012 to 2016, this ranking is dominated by South Africa whose shipbuilding output grew tenfold from about 1750 to over 17600 cgt in the considered time horizon. This is followed by Australia with a compound annual growth rate⁵ of 12%. However, as both these countries have a rather small shipbuilding economy, percentage growth figures are quite misleading. If we only look at shipbuilding economies with a share of global cgt deliveries in 2016 of over 1%, the United States leads the ranking in terms of the fastest growth between 2012 and 2016, with a compound annual growth rate of nearly 12%, followed by the EU with 1.6%. All other shipbuilding economies that are larger than 1% of cgt completions in 2016 (Korea, China, Japan, Philippines, Vietnam) had lower values in 2016 than in 2012.

36. While Korea, China and Japan are the largest shipbuilding economies in terms of total cgt, the picture changes when the value of the ships produced is considered. For vessels ordered in 2015, the European Union and Norway captured 16% of the market in value compared to 6% in terms of cgt, behind Korea, China and Japan (Sea Europe, 2016). Because of the significant decline in new orders in these latter three economies, the EU28 and Norway captured 55% of the market in value in 2016, equalling USD 14.7 bn. China, Korea and Japan follow with USD 5.6bn, USD 2.7bn and USD 2 bn respectively (Sea Europe, 2017). It is also interesting to look at growth rates of cgt deliveries by country. In the period from 2012 to 2016, this ranking is dominated by South Africa whose shipbuilding output grew tenfold from about 1 750 to over 17 600 cgt in the considered time horizon. This is followed by Australia with a compound annual

⁵

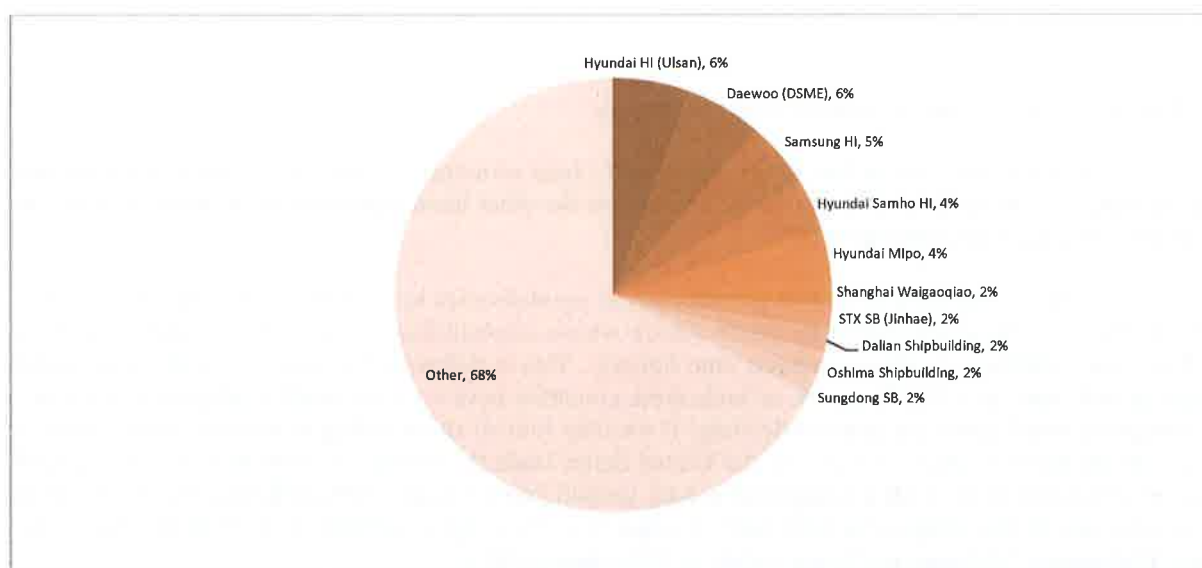
Compound annual growth rates indicate how much an economy would have had to grow annually to get from the values in period 1 to the value in the last period considered. We use this instead of average annual growth rates, because in cases of large drops and pursuing recovery, the latter measure would give a positive growth rate despite no eventual change in output.

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Production by yard (2012-2017)

37. The analysis of production by yard provides new insight to the degree of concentration in the shipbuilding industry. Between January 2012 and October 2017 the yards accounting for the largest share of production were in Korea with the Hyundai Ulsan yard and the main DSME yard accounting for 6% of global production respectively followed by the main Samsung yard, accounting for 5%. At the conglomerate level the Hyundai Group accounts for 14% of the global production in cgt as it owns three of the five top producing yards since 2012 (figure below).

Figure 8. Largest yards by cgt delivery since 2012



Source: OECD Calculations based on Clarkson's World Fleet Register

Market concentration in shipbuilding economies by company

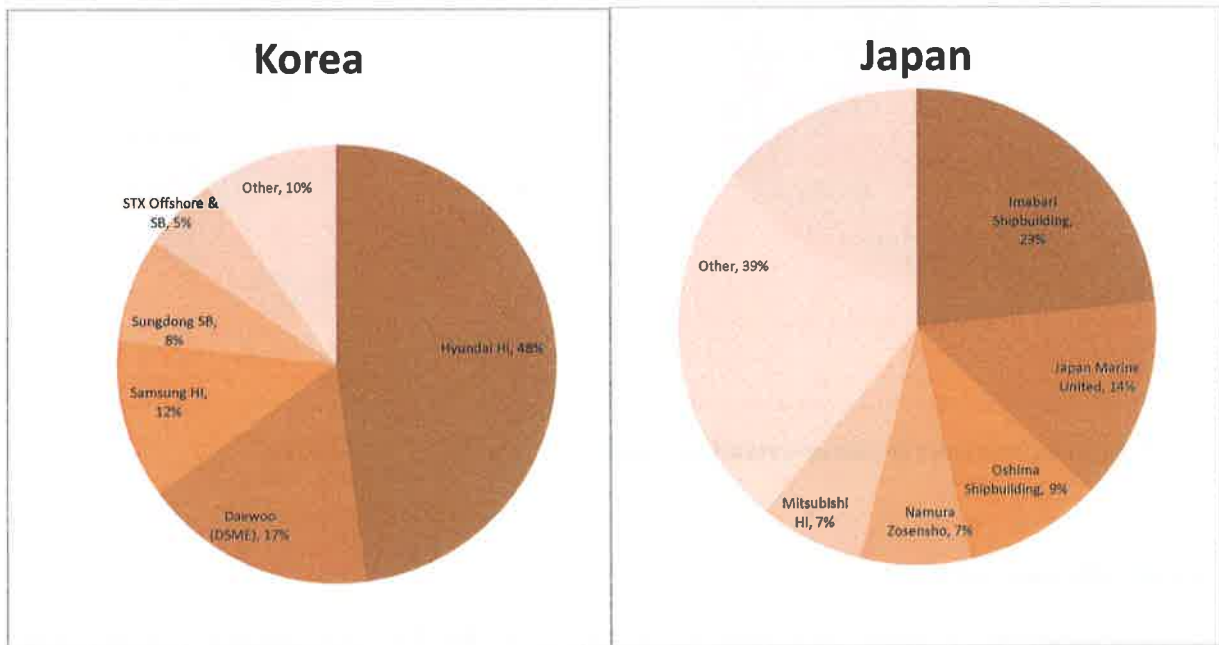
38. As for the level of market concentration in each of the major shipbuilding economies figure 9 illustrates the largest players in each market and displays the degree of concentration. In Korea, Hyundai accounts for 48% of the total production⁷, followed by DSME (17%) and Samsung (12%). In Japan

⁶ Compound annual growth rates indicate how much an economy would have had to grow annually to get from the values in period 1 to the value in the last period considered. We use this instead of average annual growth rates, because in cases of large drops and pursuing recovery, the latter measure would give a positive growth rate despite no eventual change in output.

⁷ We summarize the Hyundai Heavy Industries affiliates Hyundai Samho Heavy Industries Co., Ltd. and Hyundai Mipo Dockyard Co., Ltd. under the group Hyundai HI, as the latter holds 94.92% and 42.34% of the two former, respectively (2017 HHI Integrated Report).

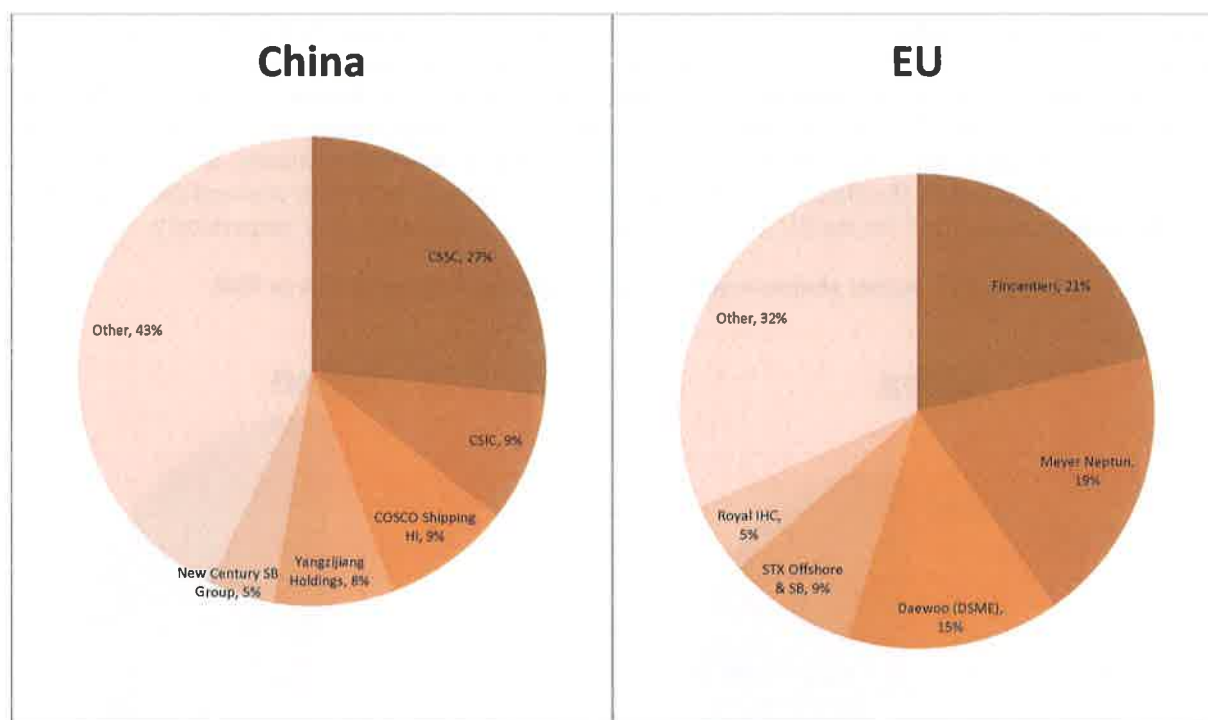
Imabari is the leading shipbuilder with 23% of the production in the economy, followed by Japan Marine United (14%). In China CSSC is by far the leading player accounting for 27% of the production in the economy. In the EU, the Italian shipbuilding company Fincantieri accounts for one fifth of the production, closely followed by the German company Meyer Neptun (19%) and production by yards owned by Daewoo. Overall, the market is relatively more concentrated in Korea and relatively less in China and Japan.⁸ This is supported by the Hirschman Herfindahl Index, a measure of market concentration⁹, which is 0.284 for South Korea, 0.117 for the EU and 0.104 and 0.103 for Japan and China, respectively.

Figure 9. Market shares in selected major shipbuilding economies in 2016



⁸ We use data from the Clarkson's World Fleet Register with ships indicated to be built in 2016 and group the yards to the respective owner company. Only yards within that country are included. A ship produced by a company at a yard abroad does not enter the statistic, as it does not represent the capacity located in the respective owner country.

⁹ The Herfindal Index is a measurement for market concentration. It is calculated as the sum of the squares of the market shares. The value thus is between 0 and 1, with 1 indicating a perfect monopoly.



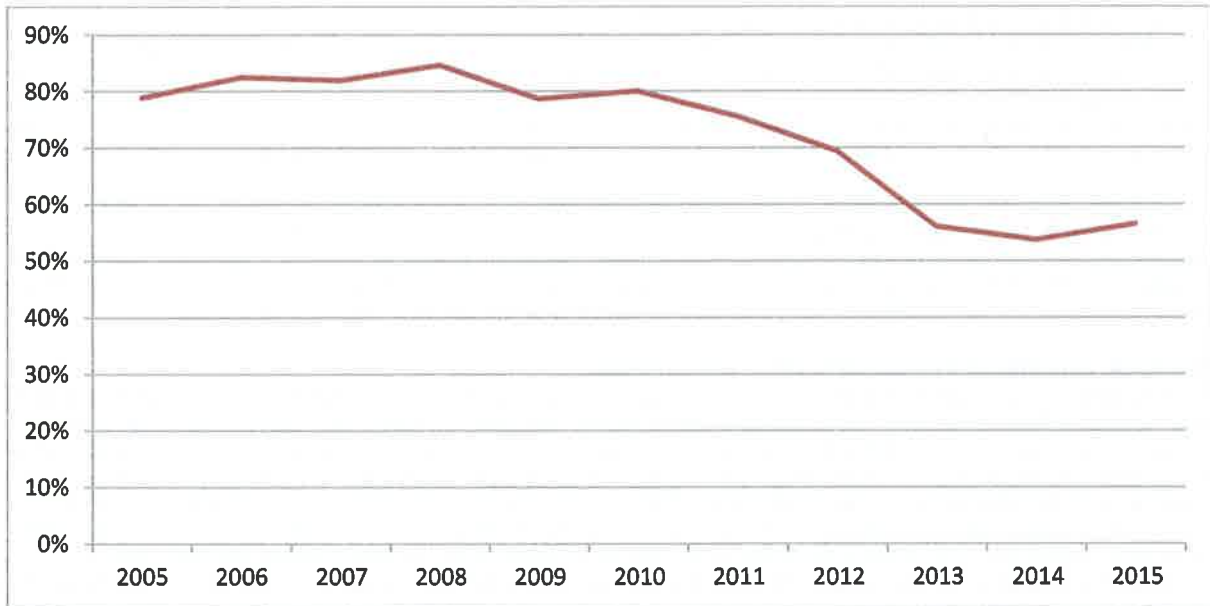
Source: OECD Calculations based on Clarkson's World Fleet Register

Capacity utilization rates

39. An analysis of capacity utilization rates (CUR) shows that the utilized capacity declined in all major shipbuilding economies, reflecting a global trend.¹⁰ While between 2005 and 2010 capacity utilisation rates stood at around 80%, a significant decline occurred across the major shipbuilding economies following the financial crisis. On average, in 2015 capacity utilisation rates stood at 57%.

¹⁰ We calculate the maximal capacity by using the maximum production value of active yards for the 15 previous years. The CUR then is the ratio of current production to that capacity. Being aware that this approach is not optimal, work to further improve the measure of capacity and CUR is currently in progress.

Figure 10. Capacity Utilization Rates 2005 - 2015



Source: OECD (2016a) Imbalances In The Shipbuilding Industry And Assessment Of Policy Responses ([CWP6\(2016\)6/FINAL](#))

Box 1. A focus on the Cruise Ship market

Historical and expected market trends in cruise travel

Between 2005 and 2015, demand for cruise tourism measured in passenger numbers has grown by 62% (Cruise Lines International Association. 2016). In 2016, more than 24 million passengers embarked on a cruise,¹¹ of which 12 million coming from North America, followed by 3 million of passengers coming from Asia. In terms of destinations the market is dominated by the Caribbean where more than a third of the global fleet is deployed, far ahead of the Mediterranean with 18.7% and Europe (without Mediterranean) with 11.7% (Florida-Caribbean Cruise Association 2017).

One key driver for the expansion of the cruise industry and, as a result, of the market for cruise ships is the expected increase in Chinese cruise tourism. With a rising middle class, more and more Chinese are traveling abroad. According to UNWTO, the 2016 saw a 6% increase of Chinese outbound tourism to 136 million travelers, spending the equivalent of US\$ 261 billion. Although uncertainties about Chinese tastes and actual market potential for cruise tourism make clear predictions difficult, cruise travel is expected to grow steadily in the upcoming years.

Order book, expected deliveries (2012-2017) and contracts

This comparably bright market environment and expected future growth is also reflected in the investment in new cruise vessels. While other ship types experienced a sharp decrease in orders the demand for cruise vessels continues to be strong. The current order book (as of October 11) registers 85 orders for cruise ships, of which most are scheduled to be delivered in the coming 3 years. After 4 more upcoming deliveries this year, 19 cruisers are to be completed in 2018, followed by a peak in 2019 with 22 ships, before declining back to 16 in 2020. This does of course not take into account upcoming demand. It is also noteworthy that building time for cruisers tends to be longer than that for other ship types. 12% of the ships in the books are not expected to be completed within the next 5 years.

Indeed, the outlook for the cruise-ship market looks relatively bright also when the order book is analyzed. In terms of number of contracted vessels, while in 2012 nine contracts have been placed (equaling 1.1 million cgt), this number rose to 34 contract in 2016 (2.8 mio cgt). During the first three quarters of 2017, 23 cruise ships had been ordered, with the total of 2.7 mio. cgt already approaching last year's annual level.

Interestingly a recent trend of refurbishing old vessels has been observed. European cruise lines have increased the proportion they spend on refurbishing vessels, from 5.7% of expenditures for shipyards in 2008 to 20.3% in 2016 (Travel Weekly 2017).

Builders by country

Currently, there are 376 cruise vessels in service. Of those, nearly 25% (93 vessels) had been built in Italy. Germany contributed with 71 cruisers (19 %) to the current fleet, ahead of France and Finland, where 57 (15%) and 53 (14%) vessels were built. Measured in cgt, the ranking of these five largest producers does not change, with Italy having built 32%, followed by Germany (23%), France and Finland with 18%, respectively. With respect to registered new orders, Italy leads with 23 orders, followed by Germany and France with 19 and 11 orders respectively. These represent 27%, 22% and 13% of the total of new orders respectively. Lastly it is interesting to remark that, for the first time a Chinese shipyard recently received an order for building a cruise vessel, contracted in the first half of 2017 and expected to be delivered in 2019. This move should be seen as an attempt by Chinese shipbuilders to cater for their internal demand and enter into the higher value added segment of cruise ship.

Market concentration (at the company/yard level)

At the company level the market for cruise ship building is relative concentrated. The Italian Fincantieri alone built 31% of the cruising capacity, followed by the German Meyer Werft (20%). At the yard level, 19% of all cruise vessel capacity currently in service was built in Meyer Werft. Fincantieri Monfalcone contributed 15%. Looking at the order book as of October 2017, Meyer Werft appears to have the largest share of cruise ships on order (22%). STX France will contribute 20%, followed by Meyer Turku with 15%. Fincantieri Monfalcone and Fincantieri Marghera with 13% and 9% respectively complete the top five of shipyard with cruise ships on order.

¹¹ Ocean cruises, does not include river cruises.

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C/WP6(2017)13

**Discussion paper in the context of the thorough revision of the
WP6 Instruments**

For Official Use

C/WP6(2017)13

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

10-Nov-2017

English - Or. English

**COUNCIL
WORKING PARTY ON SHIPBUILDING**

**C/WP6(2017)13
For Official Use**

Discussion paper in the context of the thorough revision of the WP6 Instruments

**21 November, 2017
Paris, France**

Action : This paper summarises comments from WP6 delegates on issues raised in document C/WP6(2017)8 which introduced the review of the WP6 instrument, and proposes a roadmap for the WP6's instrument review process

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JT03422703

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ANNEX C

**MANDATE OF THE INFORMAL EXPERT GROUP (IEG) ON THE SECTOR
UNDERSTANDING ON EXPORT CREDITS FOR SHIPS (SSU)**

The Informal Expert Group (IEG) on the Sector Understanding on Export Credits for Ships (SSU) is responsible for providing technical advice on the modernisation and maintenance of the SSU, with a view to fostering a level playing field in export credits for ships. The IEG works under the direction of the Participants to the SSU, through the Council Working Party on Shipbuilding (WP6), in co-operation with Participants to the Arrangement on Officially Supported Export Credits.

Specifically, the IEG is to consider in detail the technical issues associated with establishing and maintaining a modern, standalone and WTO-compliant agreement on export credits for ships. These issues are prioritised as follows:

- Work will first start on the substantive issues already marked in the SSU as commitments for further work, namely:
 - Premia, minimum interest rates, scope and ship types.
- The IEG may also work on any other substantive issue referred to it by the WP6, such as financial terms and conditions related to environmental criteria.
- The IEG may then, following the instruction of the WP6, work on all other issues required to make the SSU a modern, standalone and WTO-compliant agreement, including, *inter alia*:
 - Purpose and coverage;
 - Possible matching clauses;
 - Information requirements;
 - Reporting and notification requirements;
 - Monitoring and review; and
 - Provisions relating to entry into force, transitional arrangements and withdrawals.

The IEG is to work towards establishing a modern, standalone and WTO-compliant agreement on export credits for ships within three years of commencing operation. Following this, the IEG is to provide advice aimed at maintaining the agreement at a world-class standard. Economies participating in the IEG commit to achieving these goals in an efficient and effective manner.

The IEG is open to OECD Members and invited Partners and shall be comprised of shipbuilding and export credit experts. In the course of its work, the IEG will engage and co-operate with other relevant OECD bodies, international organisations and industry stakeholders, where appropriate.

The mandate of the IEG will remain in force until 31 December 2018.

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Background

1. The OECD Council Working Party on Shipbuilding (WP6) had decade-long discussions on policies and measures affecting normal competitive conditions in the international shipbuilding market, recognising that the specific characteristics of the shipbuilding industry complicate the application of the provisions of the WTO rules¹. The WP6 discussed policies and measures affecting normal competitive conditions on the basis of the following two Instruments:

- The Revised General Arrangement for the Progressive Removal of Obstacles to Normal Competitive Conditions in the Shipbuilding Industry (first negotiated in 1972, revised for the last time in March 1983); and
- The Revised Guidelines for Government Policies in the Shipbuilding Industry (first negotiated in 1976, revised for the last time in March 1983).

2. The WP6 agreed to conduct a thorough revision of the two 1983 Instruments at the 123rd session of the WP6 on 2 December 2016 and approved the accordingly revised Standard-Setting Action Plan by written procedure [[C/WP6\(2016\)11/REV1](#)]. This note subsequently aims to lay out the possible areas for the revision of each of the two 1983 Instruments (including through their consolidation into one single Instrument – hereafter referred to as the “new Instrument”) and a roadmap for this process, to be considered by the WP6.

3. At the 124th session of the WP6 on 19 April 2017, the Secretariat prepared a discussion paper including a questionnaire on the thorough revision of the Instruments. WP6 delegates provided comments on items including the legal nature of the revised Instrument, its objectives, scope, and mechanisms for ensuring transparency. During the 124th session of the WP6, delegates asked the Secretariat to explain the reasons why past negotiation failed and relevant discussion points. Against this backdrop, this paper summarizes comments from WP6 delegates on the issues mentioned in the document [[C/WP6\(2017\)8](#)]. The document [[C/WP6\(2017\)18](#)] summarizes the negotiations of the Shipbuilding Agreement (SBA) as requested by the WP6 at its April 2017 meeting.

Summary of comments from delegates on the issues mentioned in document [[C/WP6\(2017\)8](#)]

4. The Secretariat received comments from Croatia, Denmark, Finland, Germany, Italy, Japan, Korea, Norway, Poland, Romania, Turkey and Sea Europe. Table 1 summarises these comments (please also see original comments in ANNEX I).

¹ Article VI of GATT 1994, the Agreement on Subsidies and Countervailing Measures, and the Agreement on the Implementation of Article VI of GATT 1994

Table 1. Summary of comments received from delegates and stakeholders by item

Country	Legal nature	Objectives	Scope of "obstacles"	Transparency	Excess capacity	Resources
Croatia	legally-binding	Existing objectives	List and criteria to be mutually agreed between Members	Based on the existing activities, depending on the discussion	Reference notably to "Structural adjustment" and "Public financial contributions" in the S&D report	-
Denmark	-	-	-	-	-	Hesitant to commit additional resources
Finland	Legally-binding if China participates	Existing objectives with possible updates	Should be updated according to the current state of art	Reference to WP6 Inventory	-	Open to commit resources
Germany	Legally-binding if China participates	Existing objectives	Existing list	Reference to WP6 Inventory	Possibility for states to provide structural change support for shipyards	Depending on China's participation
Italy	legally-binding	Existing objectives + anti-dumping discipline	Establishment of general criteria together with an illustrative list	More robust transparency, monitoring and reporting obligations		
Japan	legally-binding	Existing objectives	Updated list than existing documents (i.e. Instruments, ASCM, SBA)	Depend on legal nature and contents	The report should be incorporated	Open to commit resources
Korea	Non legally-binding	Existing + additional objectives	Existing list + local contents, exchange rate policy, and policies encouraging domestic orders	Reference to Q&A	Policy to limit the establishment or expansion of new capacity	
Norway	Legally-binding if all major shipbuilders participate	Existing objectives	Updated list combined with a more general "catch-all clause"	Reference to existing WP6 activities (Inventory, peer reviews, Q&A)	chapter 8 of the report	Open to commit resources
Poland	Depending on China's participation	Existing objectives	Discussion on obstacles should be fully open	-	Recommendations of the S&D report should be taken into account	-
Romania	Non legally-binding	Existing objectives	Updated list	Existing activities (Inventory, peer reviews, Q&A)		Against committing resources
Turkey	Legally-binding	Existing objectives				
Sea Europe	Legally-binding	Existing objectives + anti-dumping discipline	Establishment of general criteria together with an illustrative list	More robust transparency, monitoring and reporting obligations		

Legal nature

5. A majority of delegates and stakeholders (Croatia, Finland, Germany, Italy, Japan, Norway, Turkey, Sea Europe) indicated their preference for a legally-binding Instrument subject to the participation in the negotiations of major shipbuilding economies including China. By contrast, Korea and Romania indicated their preference for a non legally-binding Instrument. Korea mentioned that a legally-binding Instrument might decrease the probability of participation by non-OECD countries. Romania indicated its preference for a non-legally binding Instrument regardless of China's participation.

Objectives

6. Regarding the objective of the new Instrument, a majority of delegates prefer to include the existing objectives which are to remove "Obstacles" to normal competitive conditions and to address excess capacity and structural adjustment in the shipbuilding industry. A possible process for the elaboration of the new Instrument would be to start on the premise that the existing objectives would remain in the new Instrument. This does not necessarily preclude additional objectives which would be expected to be mutually relevant.

Scope of "obstacles"

7. Following written and oral comments received from WP6 delegates, the scope of the new Instrument may include the following items:

1. Subsidy disciplines (Anti-subsidy provisions and other government support measures that distort competition)
2. Pricing disciplines (Targeted mechanisms tackling distortive pricing practices)
3. Policies addressing excess capacity (this may considered as a sub-item of the first and/or second items)
4. Local contents requirement
5. Intellectual property rights and technology transfer
6. Level playing field among enterprises of all types of ownership
7. Public procurement
8. Mergers and acquisitions and competition policy
9. Bankruptcy procedures
10. Exchange rate policy

8. Some delegates wish to include in the discussion on the new Instrument some items which are neither in the scope of the existing Instruments nor in the scope of the previous Shipbuilding Agreement negotiation. As a consequence, it appears useful that the WP6 first discuss the expected scope of the new Instrument. The Secretariat has prepared an ANNEX II in order to facilitate discussion on the scope taking into account the fact that delegates may not be able to prejudge whether to include these items in the shipbuilding Instrument to be developed.

Transparency

9. Most delegates expressed their wishes to develop mechanisms increasing transparency on policies and government measures. Some delegates stressed that the WP6 Inventory remains an essential activity to increase transparency on policies and measures. Some delegates highlighted the importance of developing sanction mechanisms to prohibit harmful subsidies given the fact that WTO rules are not sufficiently effective due to the special characteristics of the shipbuilding market.

Excess capacity

10. Most delegates expressed their wishes to include elements described in the report on Imbalances in the shipbuilding industry and assessment of policy responses [C/WP6(2016)6/FINAL]. Regarding subsidy disciplines, some delegates highlighted that structural change supports should be allowed since shipyards may have to be restructured and to reduce their capacities. Some delegates highlighted that policies limiting capacity expansion should be encouraged.

Resources

11. Some delegates highlighted that they may not be able to commit additional funding for an Ad hoc Negotiating Group for a Shipbuilding Instrument (ANG) which was proposed by the Secretariat at the 124th session of the WP6. Some delegates stressed that it is not possible to make a decision whether to establish an ANG before having more information notably on its membership.

12. In summary, most delegates prefer a legally binding Instrument aiming to ensure normal competitive conditions if China participates. Most delegates wishes to develop mechanisms increasing transparency on policies and measures. Some delegates requested detailed information on a possible Ad hoc Negotiating Group before providing their views on its establishment.

Update on China's possible participation

13. As most delegations strongly supports China's participation to the Instrument review process, Mr. Andrew Wyckoff, Director of the OECD's Directorate for Science, Technology and Innovation (STI) sent an invitation letter to Mr. Li Dong, Director General of the Equipment Industry Department in the Ministry of Industry and Information Technologies (MIIT) of China on 2nd August 2017. Unfortunately, efforts to arrange a meeting were not successful.

14. Japanese delegates had a bilateral meeting with MIIT on 12 October 2017 in Beijing, during the course of which a discussion of China's views on the Instrument review process was raised. Japan reported the summary of this bilateral meeting to the WP6 bureau members at the bureau meeting which took place on 19 October 2017. According to this summary, MIIT's position is the following.

- MIIT is interested in developing a legally binding Instrument to ensure normal competitive conditions in shipbuilding industry.
- MIIT will not be able to attend the 125th session of the WP6 as it needs more time to reflect on this invitation and requires the following information for internal coordination in China;
 1. "Necessity" (why a new Instrument is necessary);
 2. "Expected output" (what contents would be included in the new Instrument); and
 3. "Achievability" (how likely would the upcoming negotiation reach an agreement).

- MIIT may participate in the 126th WP6 in spring 2018, if MIIT can conclude internal coordination with China's State Council and other related ministries.
- MIIT's concern is that the new negotiation would fail for the same reasons as in past negotiations which took place in 2002-2005 (Special Negotiating Group) and 2010. In this context, MIIT stressed that the cause of the failure experienced in 2005 and 2010 needs to be resolved before starting a new negotiation. It is important for MIIT to persuade China's State Council and other related ministries in China on this issue.
- MIIT wishes that the OECD Secretariat approaches China, preferably through diplomatic channels so as to accelerate the internal coordination between Chinese ministries.

15. Given that China expressed its interest in the establishment of a legally binding shipbuilding Instrument, and that most WP6 delegates prefer to engage in discussions with a view to finding agreement on such an Instrument if China participates, the following section includes a possible road map and approach to encourage China to participate to the Instrument review process. Taking into account MIIT's requests (1), (2) and (3) above, the Secretariat has prepared in Annex III some elements explaining the necessity, expected output and achievability of the negotiation, which could serve as a basis for a document to be sent to China in the coming weeks.

Proposed Road map for the Instrument review process

16. The Secretariat proposes the following road map for the Instrument review process.

- a) 21 November 2017 (at the 125th session of the WP6); The WP6 discusses on the scope of possible issues which can be included in the discussion on the new shipbuilding Instrument.
- b) Early 2018; The Secretariat [and bureau members] will visit China and have a meeting with MIIT (and relevant stakeholders such as CANSI) in Beijing.
 - The agenda of the possible meeting above would include the scope of issues which could be brought up for discussion on the basis of a scoping paper to be elaborated by the Secretariat following the discussion taking place on 21 November. The draft scoping paper (see ANNEX III for a preliminary version) will be circulated to the WP6 delegates prior to the meeting via written procedure.
- c) 15-16 May 2018 WP6 meeting; Discussion at the 126th session of the WP6 (the scope of the discussion would depend on intersessional discussion with China)
 - Depending on China's reaction, a possible draft mandate for an Ad hoc Negotiating Group for the new shipbuilding Instrument can be prepared.

Actions

17. Delegates are invited to discuss and approve the road map above and discuss on the items which can be brought up for discussion in the Instrument review process (ANNEX II) Delegates are invited to discuss the approach to be followed to engage China in the negotiation and accompanying documents to be prepared and send to China (ANNEX IV).

ANNEX I : COMMENTS SUBMITTED BY DELEGATES

Croatia

Although we are of opinion that the 1983 Instruments should be a legally-binding Instrument for all OECD members (and any interested/participating non-Members), before such Instruments becomes legally-binding, it should be established the Body (on the level of OECD) which will follow the possible disruption of such Instruments. Also, all participating countries should prepare the reports to the OECD Body on, for example, 6 months basis, stated in reports all measures taken and results reached. Such OECD Body should have the power to take the legal action against the country(ies) which are not following the Instrument rules. In case the Secretariat can take the role of said Body, all the procedure could be easier and simplified. Finally, in case that the majority of Members decide for legally-binding Instruments, the Secretariat should prepare a draft mandate for future discussion and approval by WP6 members.

Regarding the Objectives, for the time being, we do not have proposal for any additional objectives, but we are of opinion that future intervention(s)/changes (regarding Objectives) to once approved and signed Instruments, should be possible. As far as present Instruments can be reviewed on 1-year basis, we do support such approach in the future.

The obstacles to normal competitive conditions should be listed in Instruments and the criteria for inclusion should be designed to select measures which are likely to distort the market. Such criteria and the List should be discussed and mutually agreed between the Members, before signing the Instruments.

The Mechanism for ensuring the transparency could be based on the previously mentioned 6 months reports. The Secretariat could prepare the draft of the content and form of the reports, which should be discussed and finally agreed.

Regarding the recommendation related to measures addressing excess capacity, we are of opinion the “Structural adjustment” and “Public financial contributions” (as described in details in [C/WP6\(2016\)6/REV1](#)), could be incorporated in the new Instruments.

We are hoping that our comments would help (together with other countries' proposals) the Secretariat to establish the concrete proposal for the new Instruments, which shall reflect the standpoints of the majority of the Members and shall lead us to better and more fair market competition rules.

Denmark

In the light of the recent discussions of promoting the participation of the main players in the shipbuilding market, notably China, we hereby submit our thoughts on the future institutional arrangements of the WP6.

We think that it is essential that China becomes a part of the work in the WP6, and their participation would increase the relevance and impact of the WP6 work. The secretariat has previously suggested that the work with participation of non-OECD members, such as China, could take place:

- in the WP6 in an extended format: it would be possible for the OECD Council to invite non-OECD Members to participate in the discussions in accordance with the Revised Resolution of the Council on Partnerships in OECD Bodies [C(2012)100/REV1/FINAL, Annex, paragraph 6] or through an ad hoc decision of the Council; or
- in an Ad hoc Negotiating Group formally separated from the WP6, where all interested countries would participate on equal footing. Such group could be seen positively by non-WP6 Members and may increase the likelihood of their participation. The establishment of such a group would require the approval of a mandate by WP6 members and other participants. In practical terms, some of the meetings of this negotiating group would be back-to-back with WP6 meetings. Its mandate could also allow organizing additional meetings. However, the supporting work for this informal working group especially if other meetings are organized not back-to-back with WP6 meetings would have significant resources implications for the WP6 Secretariat.

We would prefer the work to take place in the WP6 in an extended format. In terms of the second option suggested, the delegates would need more detailed information on the institutional details for an 'ad hoc negotiating group' and what it practically means. Moreover, we are hesitant to any arrangements which could imply further resources implications for the WP6 and the WP6 Secretariat.

Germany

- WP6 members agreed that the 1983 Instruments should undergo a thorough revision (possibly through a consolidation). Should the 1983 Instruments aim at a legally binding Instrument? If yes, should the secretariat prepare a draft mandate for discussion and approval by WP6 members and other interested countries?
 - German answer: If all relevant shipbuilding nations (especially China) are included and are willing to sign such an agreement, we should aim at a legally binding Instrument, in best case with reference to the intended results of the IWG, such as regulated minimum premia regarding the export credit guarantees for ships (with a matching clause). This would ensure a level playing field in the international ship building sector but also give flexibility for the ship building nations.
- The current objectives of the 1983 Instruments are to remove „obstacles“ to normal competitive conditions as well as to address excess capacity and structural adjustments. Should the 1983 Instruments have additional objectives? If so, what should be the additional objectives of new Instruments?
 - German answer: In our view there is no need for additional objectives than those set out in Annex I and Annex II of document [[C/WP6\(2017\)8](#)].
- Should the obstacles to normal competitive conditions in the shipbuilding industry be listed in the 1983 Instrument? If yes, should the current list be updated? What criteria for inclusion should be used? Should the criteria be designed to select measures which are likely to distort the shipbuilding market? If no, how can „obstacles“ to normal competitive conditions be removed?
 - German answer: In our view there is no need to define other obstacles than those already mentioned in the 1983 Instrument [[C/WP6\(2017\)8](#), Annex I and Annex II].
- The WP6 increases transparency in the shipbuilding market through the Inventory of support measures, peer reviews and the question and answers exercise. What mechanisms should be included in 1983 Instrument to ensure transparency in the shipbuilding market?
 - German answer: A possible agreement/new Instrument should contain transparency measures. The Inventory of support measures has proven to be a good tool to gather information about the measures on national level.
- The Revised General Guidelines encouraged measures addressing excess capacity. More recently, some policy recommendations were developed in the WP6 report on imbalances in the ship building market [[C/WP6\(2016\)6/REV1](#)]. Which recommendations of the WP6 report on imbalances in the shipbuilding market should be incorporated in the new Instrument?
 - German answer: Germany supports the view that structural adjustments should be privately-driven. It is necessary to incorporate the possibility for states to give their shipyards „structural change support“ in a new Instrument, since the shipyards (especially in Asia) will have to restructure and reduce capacities.
- Do WP6 delegates agree to commit resources to conduct the Instrument revision?

- German answer: This question will be subject to internal discussions within the German ministries. (It may be beneficial to first make sure that the relevant players (such as China) join the table before we elaborate an agreement in detail.)

Italy

Same position as Sea Europe

Japan

Legal nature and format:

- WP6 members agreed that the 1983 Instruments should undergo a thorough revision (possibly through a consolidation) [C/WP6(2016)11/REV1]. Should the 1983 Instruments aim at a legally-binding Instrument? If yes, should the Secretariat prepare a draft mandate for discussion and approval by WP6 members [and other interested countries]?
 - Japan thinks it is important that the Secretariat would analyse the past discussion of the Shipbuilding Agreement negotiation before starting discussion of legal nature. Japan's position on legally-binding depends on if China participates in discussion of making new Instrument(s).
 - If China participates, Japan would support legally-binding.
 - And if China's participation is not clear, Japan thinks it is one way to postpone discussion of legal nature and start discussion from other discussion points.
 - Regardless of legal nature, Japan expects the new Instrument(s) to be sufficiently effective in removing market distorting policy support in shipbuilding sector.

Objectives:

- The current objectives of the 1983 Instruments are to remove "Obstacles" to normal competitive conditions as well as to address excess capacity and structural adjustment. Should the 1983 Instruments have additional objectives? If so, what should be the additional objectives of new Instrument(s)?
 - Japan thinks objectives of new Instrument(s) should be same as the current objectives of the 1983 Instruments.

Scope of "obstacles" to normal competitive conditions:

- Should the obstacles to normal competitive conditions in the shipbuilding industry be listed in the 1983 Instrument? If yes, should the current list be updated? What criteria for inclusion should be used? Should the criteria be designed to select measures which are likely to distort the shipbuilding market? If no, how can "Obstacles" to normal competitive conditions be removed?
 - Japan thinks the contents of new Instrument(s) should be concrete enough to ensure effectiveness and not to be like principle, so the obstacles to normal competitive conditions in the shipbuilding industry should be listed in new Instrument(s).
 - Japan thinks measures which are likely to distort the shipbuilding market should be listed. But Japan doesn't support to start discussion from criteria of inclusion because criteria of market distorting are so obscure that the discussion would easily face difficulty. Japan thinks it would be better that, first of all, the Secretariat would list up the measures widely referring to the following related documents and discussions, and then, the WP6 would discuss which measure should be included in new Instrument(s).
 - The 1983 Instruments

- The Agreement on Subsidies and Countervailing Measures
- Shipbuilding Agreement
- The WP6 report on imbalances in the shipbuilding market [[C/WP6\(2016\)6/REV1](#)]
- The discussion in the agenda of “policy development”

Mechanisms for ensuring transparency:

- The WP6 increases transparency in the shipbuilding market through the Inventory of support measures, peer reviews, and the questions and answers exercise. What mechanisms should be included in 1983 Instruments to ensure transparency in the shipbuilding market?
 - Japan thinks what mechanisms should be included in new Instrument(s) may depend on legal nature and what contents would be incorporated in new Instrument(s).

Recommendation related to measures addressing excess capacity:

- The Revised General Guidelines encouraged measures addressing excess capacity. More recently, some policy recommendations were developed in the WP6 report on imbalances in the shipbuilding market [[C/WP6\(2016\)6/REV1](#)]. Which recommendations of the WP6 report on imbalances in the shipbuilding market [[C/WP6\(2016\)6/REV1](#)] should be incorporated in the new Instrument?
 - Japan thinks important elements of the recommendations of the WP6 report on imbalances in the shipbuilding market should be incorporated in new Instrument(s).

Resources implications:

- Do WP6 delegates agree to commit resources to conduct the Instrument revision?
 - Japan agrees to commit resources to conduct the Instrument revision.

Korea

Legal nature and format:

- WP6 members agreed that the 1983 Instruments should undergo a thorough revision (possibly through a consolidation) [[C/WP6\(2016\)11/REV1](#)]. Should the 1983 Instruments aim at a legally-binding Instrument?
 - Non-legally binding
- If yes, should the Secretariat prepare a draft mandate for discussion and approval by WP6 members [and other interested countries] ?
 - Korea thinks it would be best to maintain the current non-legally binding nature cause there are concerns about the possibility of undermining the participation of non-members if the OECD Instruments become legally binding.

Objectives:

- The current objectives of the 1983 Instruments are to remove “Obstacles” to normal competitive conditions as well as to address excess capacity and structural adjustment. Should the 1983 Instruments have additional objectives? If so, what should be the additional objectives of new Instrument(s)?
 - Adding to the elimination of market distortion factors, it is also necessary to find key factors or hindrances to the sustainability of the shipbuilding industry in the context of environmental changes such as expanded FDI, and to identify best practices of each nation. Through this process, WP6 will provide an opportunity for participating nations to explore ideas for further developing the global shipbuilding industry.

Scope of “obstacles” to normal competitive conditions:

- Should the obstacles to normal competitive conditions in the shipbuilding industry be listed in the 1983 Instrument? If yes, should the current list be updated? What criteria for inclusion should be used? Should the criteria be designed to select measures which are likely to distort the shipbuilding market?
 - It is necessary to add local contents, exchange rate policy, and policies encouraging domestic placement of orders (requiring domestic products to be shipped by domestic ships).

Mechanisms for ensuring transparency:

- The WP6 increases transparency in the shipbuilding market through the Inventory of support measures, peer reviews, and the questions and answers exercise. What mechanisms should be included in 1983 Instruments to ensure transparency in the shipbuilding market?
 - Inventory is likely to be ineffective as a way to secure transparency since it could be limited to a certain form or a frame. Therefore, Korea supports Q&A on the grounds that it would allow timely judgements to be made through instant questions and answers when the need arises.

Recommendation related to measures addressing excess capacity:

- The Revised General Guidelines encouraged measures addressing excess capacity. More recently, some policy recommendations were developed in the WP6 report on imbalances in the shipbuilding market [[C/WP6\(2016\)6/REV1](#)]. Which recommendations of the WP6 report on imbalances in the shipbuilding market [[C/WP6\(2016\)6/REV1](#)] should be incorporated in the new Instrument?
 - A policy is needed to limit the establishment or expansion of new capacity (docks, cranes, etc.) to the minimum volume of repair and maintenance facilities needed to operate shipyards. A cautious approach also needs to be taken when it comes to expanding investment in overseas ship yards.

Norway

Answers from Norway to questions in the Discussion paper for the review of the Instruments maintained by the OECD Council Working Party on Shipbuilding ([C/WP6\(2017\)8](#)):

Legal nature and format:

- WP6 members agreed that the 1983 Instruments should undergo a thorough revision (possibly through a consolidation) [[C/WP6\(2016\)11/REV1](#)]. Should the 1983 Instruments aim at a legally-binding Instrument?
 - Norway would prefer a legally binding Instrument. However, we do not see it as a realistic approach unless all the largest shipbuilding nations participate in the negotiations.
- If yes, should the Secretariat prepare a draft mandate for discussion and approval by WP6 members [and other interested countries] ?
 - Yes.

Objectives:

- The current objectives of the 1983 Instruments are to remove “Obstacles” to normal competitive conditions as well as to address excess capacity and structural adjustment. Should the 1983 Instruments have additional objectives? If so, what should be the additional objectives of new Instrument(s)?
 - Norway deems the current proposed objectives to be satisfactory.

Scope of “obstacles” to normal competitive conditions:

- Should the obstacles to normal competitive conditions in the shipbuilding industry be listed in the 1983 Instrument? If yes, should the current list be updated? What criteria for inclusion should be used? Should the criteria be designed to select measures which are likely to distort the shipbuilding market?
 - The current list should be updated and combined with a more general "catch-all clause" which prohibits measures having equivalent effect as those specifically listed. We have not considered which criteria should be used to select these measures.

Mechanisms for ensuring transparency:

- The WP6 increases transparency in the shipbuilding market through the Inventory of support measures, peer reviews, and the questions and answers exercise. What mechanisms should be included in 1983 Instruments to ensure transparency in the shipbuilding market?
 - We believe that the WP6 should continue to increase transparency through the existing activities like the Inventory, peer reviews and the questions and answers. We would be willing to consider a new notification procedure or other mechanisms. How to include any non-WP6-members covered by the new Instrument in the mechanisms should be taken into account.

Recommendation related to measures addressing excess capacity:

- The Revised General Guidelines encouraged measures addressing excess capacity. More recently, some policy recommendations were developed in the WP6 report on imbalances in the shipbuilding market [C/WP6(2016)6/REV1]. Which recommendations of the WP6 report on imbalances in the shipbuilding market [C/WP6(2016)6/REV1] should be incorporated in the new Instrument?
 - We think that the recommendations in the chapter 8 of the report is a good starting point and should be taken into account.

Resources implications:

- Do WP6 delegates agree to commit resources to conduct the Instrument revision?
 - Yes.

Poland

Poland considers that there is a need for revision of 1983 Instruments document however due to the fact that China, as one of the largest shipbuilding economy, is not participating in the WP6 meetings a legally binding status as proposed would not bring an added value to the main objectives of the 1983 Instruments. Having said this Poland agrees to remove the list of categories of obstacles and leave the catalogue fully open. As for the recommendations of the Report of imbalances we should take into account these ones that follow the objectives of 1983 Instruments.

- Legal nature
 - Poland considers any discussion on legally binding status futile for the time being as China is not participating. If so the issue will be open for discussion.
- Objectives
 - Poland considers that the list of categories of obstacles should be removed.
- Obstacles
 - Poland considers that the discussion on obstacles should be fully open, and the list of obstacles may not be necessarily included in the Instrument.
- Excess capacity
 - The recommendations of the Report of imbalances should be taken under discussion.

Romania

Participation of non-members :

- Possible options for the institutional arrangements of the discussions.
 - A : Option 1, at the WP6.

Legal nature :

- Should the 1983 Instruments aim at a legally-binding Instrument?
 - A : Non-legally binding Arrangements / Guidelines, applicable to all Adherents (interested Members and non-Members).
- Should the Secretariat prepare a draft mandate for discussion and approval by WP6 members and other interested countries?
 - A : Yes, discuss draft mandate at the 125th WP6 meeting. If possible, to invite China too to attend the 125th WP6 meeting.

Objectives :

- Should the 1983 Instruments have additional objectives? If so, what should be the additional objectives of new Instrument(s)?
 - A : No.

Scope of “obstacles” to normal conditions :

- Should the obstacles to normal competitive conditions in the shipbuilding industry be listed in the 1983 Instrument?
 - A : Yes, the obstacles to normal competitive conditions in the shipbuilding should be listed in the 1983 Instrument, but such obstacles must be assessed and decided by consensus by all Adherents. The assessment criteria shall be as such as to be chosen only the “obstacles” that may determine beyond the doubts the market distortion.

Mechanisms for ensuring transparency :

- What mechanisms should be included in 1983 Instruments to ensure transparency in the shipbuilding market?
 - A : The existing mechanisms, i.e. Inventory of support measures, peer reviews, and the questions and answers exercises are good enough and sufficient to reach the purpose. It is not necessary for WP6 to figure out additional mechanisms to these existing ones. All we really need is to learn how to consolidate the mutual trust and respect and by conducting the discussions to the consensus. As first objective in this respect, we believe that must come up with positive measures as to determine that responses by the Adherents be more and more transparent and clear.

Recommendation related to measures addressing excess capacity :

- Which recommendations of the WP6 report on imbalances in the shipbuilding market [C/WP6(2016)6/REV1] should be incorporated in the new Instrument?
 - Financial contributions aiming at capacity reduction
 - Employment reallocation support
 - Structural change support
 - Operational control aiming to contribute to a smooth structural change into other activities
 - Support measures to the demand side

Resources implications :

- Do WP6 delegates agree to commit resources to conduct the Instrument revision?
 - A : No, we do not commit to allocate resources.

Turkey

We support the view that a robust policy of sanctions is a must during the revision/replacement process of the WP6 shipbuilding Instruments to achieve its goal.

The proposed Instrument should be legally binding on the parties and the coverage of main player Non-OECD Members is indispensable.

We also support the proposed further work that is necessary for the Instrument revision including the establishment of ad-hoc negotiation group.

European Commission

The EU seeks to eliminate factors that distort normal competitive conditions in the shipbuilding industry and is interested in exploring viable options for instrument review. The premise for success in an eventual agreement is that this would cover all the areas of relevance in today's market, which may well go beyond those covered in previous discussions. Therefore, as a first step, we believe that WP6 should reflect on which areas would be necessary to cover in agreement to ensure its relevance. We therefore suggest that we dedicate the upcoming meeting to set in motion an exercise to identify those areas amongst WP6 participants. Above and beyond subsidies and pricing, these could include for example:

- other government support measures that distort competition,
- level playing field among enterprises of all types of ownership,
- local content requirements,
- public procurement,
- intellectual property rights and technology transfer,
- mergers and acquisitions and competition policy,
- bankruptcy procedures,
- transparency.

Further reflection on the scope of the instrument should be included in the discussion.

This first discussion (which would benefit the insights provided by the industry to industry meeting to take place on 16 November) would be followed by intersessional work to identify by Q1 2018 the relevant areas necessary for an agreement amongst ourselves—and, from the WP6 perspective, with China. This work would answer the questions as to necessity and feasibility for an agreement. At that stage we would decide on potential next steps like a workshop with China in Q2 2018 to take this matter forward.

Sea Europe

OECD INSTRUMENT REVIEW (INCLUDING POSSIBLE RELAUNCH OF NEGOTIATIONS OF A GLOBAL SHIPBUILDING AGREEMENT)

SEA EUROPE PRELIMINARY POSITION

1. INTRODUCTION

In December 2016, the OECD Council Shipbuilding Working Party 6 (hereinafter referred to as “WP6”) agreed to launch a thorough revision of the two 1983 OECD Instruments, notably the “Revised General Arrangement for the Progressive Removal of Obstacles to Normal Competitive Conditions in the Shipbuilding Industry”, and the “Revised General Guidelines for Governmental Policies in the Shipbuilding Industry”. The afore-mentioned revision includes the possibility to re-launch the negotiations of a global shipbuilding agreement.

SEA Europe – the European Shipyards’ and Maritime Equipment Association – welcomes the opportunity to share the following preliminary comments in relation to the OECD Instrument review process. The present document is submitted in response to the OECD Secretariat’s request for initial input from WP6 delegates following the discussions at the WP6 meeting of 18-19 April 2017.

SEA Europe looks forward to contributing to this important process and plans, therefore, to submit additional comments with regard some of the elements below identified following more in-depth internal consideration and consultation with its Members.

2. THE CONTEXT

The full value chain of the European shipbuilding industry with all its different products and services, including its extensive supply chain, operates in a truly global market. As shipbuilding is considered of strategic importance in some third countries, large volumes and various forms of state support have a long track record and are causing distortions to normal market functions.

Currently, shipping and shipbuilding are experiencing a particularly long downward cycle phase. The poor earning situation of shipping companies has brought down the investment

Capacity and increased price pressure in the market. To safeguard continuation of operations some third country yards are desperate enough to accept again orders below cost.

It is a fact that shipbuilding operates under a unique absence of trade rules. The specific nature of the product and its market prevent WTO rules to be applied in an effective way. Long running efforts to establish a legally binding global regime under the OECD have so far not succeeded. The 1994 Agreement was never ratified and the latest attempt to conclude a new shipbuilding agreement was, as known, abandoned in 2010.

However, it is worth highlighting that with the shipbuilding market currently suffering its worst downturn over the last decades, market conditions have totally changed since then, and it can be reasonably assumed that appetite for change may have now grown sufficiently. There is indeed a growing awareness nowadays amongst all main global shipbuilding and shipping market players that cut-throat competition of shipyards increases instability, volatility, speculation and overcapacity. Hence, international rules need to be established to ensure that past mistakes are not repeated.

3. KEY ELEMENTS OF SEA EUROPE'S PRELIMINARY POSITION

General: SEA Europe strongly supports the relaunch of negotiations, under the aegis of the OECD, of an international Instrument aimed at establishing effective rules that could restore level playing field in global shipbuilding. The negotiations shall review and address all market distorting factors, in particular support measures, unfair pricing practices adopted on a systematic basis and other practices which distort normal competitive conditions in the world shipbuilding industry, as well as mechanisms to deal with these.

Legal format: SEA Europe support discussions to focus on developing a legal binding Instrument, preferably in the form of a global shipbuilding agreement, which includes a dispute settlement and preferably also a retaliatory mechanism if legal obligations are violated.

Participation of Non-OECD countries: SEA Europe strongly believes that the most appropriate forum to negotiate such an agreement would be the OECD. However, an Instrument which would only apply to OECD members will most likely not be able to ensure the fulfilment of the ultimate objective of creating restoring competitive conditions in shipbuilding. It is vital that China is included in these discussions, due to its status as the world's biggest shipbuilder and due to its status as a non-market economy.

Objectives of the Instrument: SEA Europe holds the view that the removal of barriers to normal competitive conditions as well as access to address overcapacity and structural adjustments should be the key objectives. The Instrument should contain both anti-subsidy provisions and targeted mechanisms tackling the systematic adoption of unfair, distortive pricing practices in the shipbuilding market which could operate in support of the afore-mentioned anti-subsidy discipline. SEA Europe Members representing national shipbuilding industries directly affected by such developments have expressed the view that recent extreme cases of indebtedness and consequent bail-outs were mainly the result of lasting unsustainable pricing policies; hence global rules would be urgently needed to prevent the initial cause for the accumulation of debts, i.e. prices below costs. It is worth recalling that the existing antidumping rules (i.e. WTO Antidumping Code) do not effectively address distorting pricing practices in the shipbuilding sector, amongst others due to the fact that ships are rarely produced in (large) series and are rarely imported in the sense known for most other products. The inclusion of targeted provisions tackling unfair pricing practices could therefore facilitate the application of one of the core pillar of the WTO system to the shipbuilding industry. Moreover, from today's perspective, such mechanism would have notably contributed to a more balanced market and reduced the impact of purely speculative ordering.

Scope of "obstacles" to normal competitive conditions: the scope of the new Instrument should be as broad as possible with regard to the list of "obstacles" represented by government intervention specifically targeted to shipbuilding. More specifically, it should cover public support measures of any kind (direct and indirect) and at any level (central, local, public owned agencies, banks/pension funds etc.). SEA Europe would support an approach whereby certain support measures (to be further defined) may be nevertheless allowed under specified conditions. These may include by way of example the following types of measures: export and home credits consistent with the OECD SSU rules, certain RDI activities, assistance to workers affected by closure of shipyards, and restructuring support combined with production limitations. Perhaps, an option could be to consider adopting a combined system, i.e. establishment of general criteria together with an illustrative list. In SEA Europe's view, the rules included in the Instrument however would not necessarily need to address all the "obstacles" to normal competitive conditions, but rather e.g. let a future IWG export credit agreement (or OECD SSU rules) govern the ability for governments to grant export finance to shipbuilding, or let the WTO Technical Barriers to Trade Agreement restrict the use of technical standards, which might create trade distortion.

Transparency: SEA Europe holds the view that more robust transparency, monitoring and reporting obligations are needed. Transparency in shipbuilding markets is essential and therefore a future shipbuilding Instrument should include provisions which require federal and sub-federal governments or state owned authorities/institutions to 1) publish any relevant information concerning their programs, support measures, technical regulations, which might have an (non-competitive) impact on the shipbuilding industry, 2) report any types of financial transactions directed to the shipbuilding industry.

4. CONCLUSIONS

Achieving a healthy and balanced market, by tackling the sources of the current challenges through internationally agreed rules, is and should be a shared interest of the global shipping and shipbuilding community. Given today's dramatic situation in the world shipbuilding and shipping markets, pursuing such an important goal is of vital importance which can no longer be procrastinated.

SEA Europe stands ready to play a constructive role in the forthcoming process, and remains available for any further information of clarification that may be needed at this stage.

The above list of considerations constitutes a preliminary contribution which will be supplemented as necessary in the course of the upcoming discussions.

ANNEX II: POSSIBLE ITEMS WHICH CAN BE BROUGHT UP FOR DISCUSSION ON THE NEW SHIPBUILDING INSTRUMENT

Inputs from delegates

The Secretariat received comments on the Instrument review from delegates after the 124th session of the WP6. While most delegates wish to include existing objectives and items in the new Instrument, the following possible items which may fall under the scope of the new Instrument were suggested by some delegates in their comments on the “Objectives” and Scope of “obstacles” to normal competitive conditions;

- Subsidy disciplines (Anti-subsidy provisions and other government support measures that distort competition)²
- Pricing disciplines (Targeted mechanisms tackling distortive pricing practices)
- Policies addressing excess capacity (this may considered as a sub-item of the first and/or second items)
- Local contents requirement
- Intellectual property rights and technology transfer
- Level playing field among enterprises of all types of ownership
- Public procurement
- Mergers and acquisitions and competition policy
- Bankruptcy procedures
- Exchange rate policy

Discussion points

In order to avoid duplication of the ongoing discussions in other international forum, it appears useful to examine if the items mentioned by delegates are specific to the shipbuilding sector.

Common legal deficiencies in applying WTO framework to the ship sector

As recognised by delegates in past SBA negotiations, the specific characteristics of the shipbuilding industry complicate the application of the provisions of the WTO rules such as the WTO Agreement on

² Some delegates highlighted that discussions on export credits for the ship sector taking place at the International Working Group on Export Credits (IWG) should be taken into consideration.

Subsidies and Countervailing Measures (ASCM) and the Agreement on the Implementation of Article VI of GATT 1994 (Anti-dumping Agreement).

It is commonly mentioned that the specific characteristics of the shipbuilding industry prevent the effective implementation of countervailing measures in the form of countervailing duties to ships, as countervailing duties can only be imposed by registered countries (i.e. Panama, Liberia and Marshall Islands) which do not have shipbuilding industry and hence would not have any motivation to impose such duties. Based on the Understanding on rules and procedures governing the settlement of disputes (DSU)³, this legal deficiencies derived from the special characteristics of the ship sector may be problematic not only in the context of the ASCM and Anti-dumping Agreement but also of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and other WTO rules. However, according to article 22 3. (b) of the DSU, countries may be able to take countervailing measure by suspending concessions in other sectors if it is not practicable or effective to suspend concessions or other obligations to the same sector(s).

Article 22. 3 of the DSU

3. In considering what concessions or other obligations to suspend, the complaining party shall apply the following principles and procedures:

(a) the general principle is that the complaining party should first seek to suspend concessions or other obligations with respect to the same sector(s) as that in which the panel or Appellate Body has found a violation or other nullification or impairment;

(b) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to the same sector(s), it may seek to suspend concessions or other obligations in other sectors under the same agreement;

(c) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to other sectors under the same agreement, and that the circumstances are serious enough, it may seek to suspend concessions or other obligations under another covered agreement; (...snip...)

As the article 22 3. (b) of the DSU enable the WTO frameworks to be effective also for the ship sector, a question still remains whether imposing countervailing duties to other sectors is optimal or not. Having this recognition in mind, the following sub-sections discuss whether and how specific characteristics of the shipbuilding industry affect the implementation of existing international framework and how these issues are prominent in the shipbuilding sector.

(i) Subsidy disciplines and pricing disciplines

Subsidy disciplines and pricing disciplines were the main items discussed in the previous Shipbuilding Agreement negotiations which took place between 2002 and 2005. These two items fell under the scope of the previous negotiation as the specific characteristics of the shipbuilding industry complicate the application of the provisions of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on the Implementation of Article VI of GATT 1994 (Anti-dumping Agreement).

More concretely, special characteristics of ships include the fact that they are normally exported to registered countries, and hence, recognised as a global single market in which any fiscal and regulatory

³ Annex 2 of the WTO Agreement.

trade barriers (i.e. custom, regulation, and transport cost) has been removed. Due to these specific characteristics, there are several legal deficiency/invalidity in the ASCM and Anti-dumping Agreement in addition to difficulties in imposing countervailing duties to ships. For example;

- Although the ASCM define the prohibited subsidies as subsidies contingent upon export performance and the use of domestic over imported goods, subsidies to shipyards are provided on the premise that their products (i.e. ocean going ships) are to be exported, and hence, all subsidies to shipyards can be recognised as prohibited subsidies within the meaning of the ASCM;
- Specific characteristics of the shipbuilding market recognised as a global single market complicate the identification of dumping within the meaning of the Anti-dumping Agreement, as this specific characteristic gives less possibility to identify dumping by comparing the export price with domestic price of a similar product. The singularity of each ship makes difficult to compare the price of a vessel with that of a like product.

The WP6 has tried several times⁴ to conclude a legally binding agreement including subsidy disciplines and pricing disciplines in order to establish normal competitive conditions taking into account these special characteristics of the shipbuilding industry.

(ii) Local Content Requirements (LCR)

Local Content Requirements (LCR) are measures which require domestic industries to source a specified percentage of intermediate goods/supplied services locally. By protecting domestic markets against the imports of foreign goods, LCRs represent barriers to free trade and to establish normal competitive conditions. A possible shipbuilding Instrument incorporating LCRs in or with an impact on the shipbuilding industry should be in line with Article III:4 of GATT on “National Treatment on Internal Taxation and Regulation” which states that;

“The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.”

The existing international rules for LCRs (i.e. Article III:4 of GATT) are not specifically applied to shipbuilding but are also applied to other sectors; however, paragraph 3 (a)⁵ of GATT 1994 includes

⁴ While the agreement in 1994 has been successfully negotiated but not entered into force, the negotiations in 2002 to 2005 were paused due to insurmountable disagreements. Efforts to restart negotiations in 2010 had to be given up before a common mandate could be defined.

⁵ Paragraph 3. (a) of GATT 1994; The provisions of Part II of GATT 1994 shall not apply to measures taken by a Member under specific mandatory legislation, enacted by that Member before it became a contracting party to GATT 1947, that prohibits the use, sale or lease of foreign-built or foreign-reconstructed vessels in commercial applications between points in national waters or the waters of an exclusive economic zone. This exemption applies to: (a) the continuation or prompt renewal of a non-conforming provision of such legislation; and (b) the amendment to a non-conforming provision of such legislation to the extent that the amendment does not decrease the conformity of the provision with Part II of GATT 1947. This exemption is limited to measures taken under legislation described above that is notified and specified prior to the date of entry into force of the WTO Agreement. If such legislation is

exemptions for the application of Article III and XI, and as a result, the Jones Act (see following section) in the United States has been exempted from the application of GATT 1947. In more details, this article stipulates that the good in question needs to be treated not less favourable than national origin goods and the product needs to be 'like' the national origin good. (WTO⁶)

Selection of LCRs in or with impact on the shipbuilding industry:

The following LCRs target the shipbuilding industry or have an impact on this industry. In general, the requirement to locally source a percentage of input for ship construction prevents a) yards outside of the country from selling vessels to the country which has established the LCR, or b) prevents yards inside of the country from sourcing their input (e.g. marine equipment supply) from possibly more competitive foreign suppliers.

- US Jones Act (1920): Vessels qualified to engage in US coastwise trade must be built in the US, owned by US entity, equipped by 75% with US crew and US flagged (i.e. cabotage).
- US Energizing American Maritime Act (2020) From 2020: 15% of LNG and crude oil exports to be transported on US flagged vessels (i.e. cabotage). From 2025: threshold will be raised to 30%. To be intended: requirement of ships being locally built.
- Brazil: LCR in oil and gas sector (1999) Contractual commitments as part of concession contracts (e.g. oil licenses) require oil companies to procure a minimum percentage of equipment and services from local suppliers. The government intends to reduce the LCRs (not confirmed yet).
- China: Scrap and build subsidy (2010) Promotion of demolition of Chinese owned vessels which have not reached the statutory service life and new-orders of vessels built at Chinese yards. In 2014 the subsidy rate was raised by 50%.
- Russia: Regulation on the use of ships for the exploration and exploitation of mineral and other inanimate resources (2007) Oil produced in the Arctic zone of the Russian Federation shall be transported by Russian flagged ships and vessels built at Russian shipyards (i.e. cabotage).

Overall, while existing international rules for LCR (i.e. Article III:4 of GATT) are not specifically applied to shipbuilding but also applied to the other sectors, there are exemptions specifically targeted for the US Jones Act. Moreover, policy developments related to local content requirements specific to the ship sector were more prominent in recent years, notably in non-WP6 member economies.

(iii) Intellectual property

The WTO defines intellectual property rights (IPR) as “the rights given to persons over the creations of their minds.”⁷ IP is protected so that the imitation of an invention is prevented and the innovator can reap its benefits through commercialization. For this protection of IPR, there are currently two international regimes in place:

subsequently modified to decrease its conformity with Part II of GATT 1994, it will no longer qualify for coverage under this paragraph.

⁶ Source: https://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_02_e.htm#article3

⁷ Source : https://www.wto.org/english/tratop_e/trips_e/intel1_e.htm

- The World Intellectual Property Association (WIPO), which is an UN agency, administers 24 international treaties, among those the Paris Convention and the Berne Convention.
- The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), administered by the WTO, sets out minimum standards that have to be met by the national legislation of the member countries. In doing so, it builds on and incorporates previous standards as the Paris Convention and Berne Convention but also includes new elements.

The TRIPS agreement introduced intellectual property law into the international trading system and remains the most comprehensive international agreement on intellectual property. Among the various dimensions of IP discussed in the agreement, the parts dealing with industrial designs and patents are the most relevant for the area of shipbuilding. As all major shipbuilding economies are signatories to the WTO (and thus also to TRIPs), provisions regarding IPR in a new SBA could not be less stringent than those in the TRIPs agreement. Article 25 and 26 for instance outline that the protection of industrial designs that meet the requirements of being new or original shall amount to at least ten years. Patents, which are regulated in Articles 27 to 34, enjoy protection of at least twenty years from the filing date. Patents are available to inventions that meet the requirements of being new, involving an inventive step and having an industrial application.

Limitations of IPR protection and enforcement in respect to shipbuilding

Despite the broad scope of patent protection in general, there are specific difficulties with regard to ships. In other sectors, products with patent infringements that are imported into a national legislation where the respective patent is registered can be diverted from commercial use for instance via destruction of the respective good. Furthermore, importers of those products can be fined to deter future sourcing of counterfeit products. Ships, however, are only temporarily passing through national waters and their respective jurisdictions, and as such they are not imported and do not fall under the same regulations.

Moreover, if vessels had to conform to legislation in each national jurisdiction they enter throughout their lifetime, this would significantly inhibit international trade.⁸ Article 5^{ter} of the Paris Convention (*Patents: Patented Devices Forming Part of Vessels, Aircraft, or Land Vehicles*) therefore explicitly limits the rights of patent holders in the case of shipbuilding in order to facilitate international trade⁹:

“In any country of the Union the following shall not be considered as infringements of the rights of a patentee:

(i) the use on board vessels of other countries of the Union of devices forming the subject of his patent in the body of the vessel, in the machinery, tackle, gear and other accessories, when such vessels temporarily or accidentally enter the waters of the said country, provided that such devices are used there exclusively for the needs of the vessel; ...”

In effect, this means that patent infringements can be prosecuted only if the patent is registered in the flag country of the ship that contains the counterfeit part. Merely entering waters of a country where the patent is registered is not sufficient to warrant litigation.

⁸ Source: Study on the Competitiveness of the European Shipbuilding Industry, <https://ec.europa.eu/docsroom/documents/10506/attachments/1/translations/en/renditions/pdf>

⁹ For the complete text please see <http://www.wipo.int/wipolex/en/details.jsp?id=12633>

(iv) Other Issues

Other issues raised by delegates such as exchange rate policies, level playing field among enterprises of all types of ownership, public procurement, mergers and acquisitions and competition policy, and bankruptcy procedures are neither specific to nor prominent in the ship sector, and hence, has been discussed in cross sectoral context. For example, exchange rate policy has been discussed in IMF in accordance with the Section 1 (iii) of Article IV of Agreement of the International Monetary Fund which mentions that each member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. Therefore, it may be more appropriate to discuss these issues in cross sectoral international frameworks.

However, some of these issues such as the level playing field among enterprises of all types of ownership and bankruptcy procedures may fall within the scope of subsidy disciplines. Discussion is needed to clarify the relationships among these items raised by delegates and compartmentalize these items before preparing the draft scoping paper presented in ANNEX IV.

Summary

This ANNEX discussed the items to be brought up for discussion in the Instrument review process. In order to avoid duplication of the ongoing discussion in the other international frameworks, discussion should be made from the perspective of whether the items raised are specific to or prominent in shipbuilding industry. The following table summarises the international frameworks focusing on these issues raised by delegates and legal deficiencies due to the specific characteristics of the shipbuilding industry.

Table 2. Possible items to be brought up for discussion and relevant international frameworks

Items raised by delegates	International framework	Countervailing measures	Additional legal deficiencies due to specific characteristics of ships
Subsidy disciplines	WTO ASCM	sub-optimal	Less possibility to identify prohibited subsidies within the meaning of the ASCM
Pricing disciplines	WTO Anti-dumping Agreement	sub-optimal	Less possibility to identify dumping by comparing the export price with domestic price of like product
LCRs	Article III:4 of GATT	sub-optimal	Exception for the US Jones Act in GATT
Intellectual property	WTO TRIPs and WIPO	sub-optimal	Exception for vessels temporarily or accidentally entering the waters of the said country (Article 5ter of Paris Convention)
Exchange rate policy	IMF article 4 section 1 (iii)	-	-

**ANNEX III : ELEMENTS RELATED TO THE POSSIBLE SCOPE FOR A NEW INSTRUMENT
IN THE CONTEXT OF THE QUESTIONS RAISED BY CHINA**

Given the fact that China expressed its interest to participate in the Instrument review in particular if the goal is to develop a legally binding Instrument and that most WP6 delegates prefer a legally binding Instrument aiming to ensure normal competitive conditions if China participates, it appears useful to follow an approach which is compatible with China's wishes.

As in the proposed road map in this document, a meeting between China and the WP6 bureau members can be set prior to the 126th WP6 meeting. A scoping paper may be useful to exchange views between China and bureau members in order to decrease the probability of a failure of negotiations at a later stage. The following note in Annex IV presents a proposed draft scoping paper to be discussed by WP6 delegates. As the MIIT indicated that it will not be able to decide whether to participate to the negotiations unless the necessity, expected output and achievability of the negotiations are sufficiently clearly assessed, these key elements are presented in this Appendix.

ANNEX IV: DRAFT SCOPING PAPER FOR A NEW INSTRUMENT TO ESTABLISH NORMAL COMPETITIVE CONDITIONS IN THE SHIPBUILDING INDUSTRY

The OECD Council Working Party on Shipbuilding (WP6) had decade-long discussions on policies and measures affecting normal competitive conditions in the international shipbuilding market, recognising that the specific characteristics of the shipbuilding industry complicate the application of the provisions of international framework such as the WTO Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on the Implementation of Article VI of GATT 1994 (Anti-dumping Agreement).

The WP6, [at its 125th session and succeeding intersessional discussion], has agreed to start developing a shipbuilding Instrument aiming to ensure normal competitive condition in the shipbuilding industry. The following items will be brought up for the negotiation. The participants do not prejudge whether to include all these items in the shipbuilding Instrument to be developed. WP6 members and other major shipbuilding economies are expected to participate to the Instrument review process. All members participate on an equal footing.

- a) Possible items to be brought up for the negotiation; (TBD, based on the discussion in the WP6 meeting)

- Subsidy disciplines (Anti-subsidy provisions)

–*Necessity*; The shipbuilding industry has experienced a significant downturn. The industry has recently faced a persistent situation of excess capacity with global capacity utilisation rates (CURs) ranging between 50% and 60% which is significantly lower than CURs in 2005 and 2010 when the past negotiations were paused. In this persistent situation of low shipbuilding industry activity, the magnitude of government interventions (i.e. support measures) supporting the shipbuilding industry appear to be significant. Thus, establishing normal competitive conditions and ensuring well-functioning market mechanisms become an ever more pressing issue (C/WP6(2017)18). As subsidies to shipyards are provided on the premise that their products (i.e. ocean going ships) are to be exported, and hence, all subsidies to shipyards can be recognised as prohibited subsidies within the meaning of the ASCM, the existing legal framework in the WTO is unable to reduce the level of government interventions.

–*Expected output*; A legally binding subsidy discipline which complement the existing international framework. The discussion would be restarted based on the output of the previous negotiation which took place between 2002 and 2005.

–*Achievability*; A tentative agreement on support measures discipline and differential treatment has been reached in the negotiations which took place from 2002 to 2005. Given the great gap between initial positions, the convergence of views was very significant. The negotiations from 2002 to 2005 thus showed the potential for compromise of many parties and revealed considerable flexibility on all sides. The draft agreement reached in 2005 could eventually be used as a starting point for future negotiations if participants to the new negotiations agree. (C/WP6(2017)18) As all delegates shared the recognitions that ensuring well-functioning market mechanisms became an ever more pressing issue in recent years, and as previous negotiations

showed the potential for compromise of many parties, the subsidy discipline itself seems to have a relatively high probability of reaching an agreement.]

- Pricing disciplines (Targeted mechanisms tackling distortive pricing practices)

- Necessity*; The current newbuilding prices are low. The Clarksons Newbuilding Price Index reached its lowest value in more than 10 years in the first quarter of 2017 (Clarksons Newbuilding Price index). These low prices were driven by muted demand for the shipbuilding industry. The average operating profitability of shipbuilding companies (Ebitda over sales) decreased from 10% to 4% between 2010 and 2014 (C/WP6(2017)18). As the specific characteristic of the shipbuilding market gives countries less possibility to identify dumping by comparing the export price with domestic price of like product, the legal deficiency still remains in the current existing international framework and cannot resolve the persistent weak market situation.

- Expected output*; A legally binding pricing disciplines which complement the existing international framework. The discussion would be restarted based on the output of the previous negotiation which took place between 2002 and 2005.

- Achievability*; The major unresolved issue at the Special Negotiating Group (SNG) which took place between 2002 and 2005 was if (and how) to include a pricing discipline. Eventually, at the 12th session (high level meeting) of the SNG, the Chairman reported to the SNG that in his view without some kind of common ground on the issue of pricing there was little likelihood of concluding an agreement and concluded to suspend, or pause, the negotiation for an unspecified term. (C/WP6(2017)18) Further analysis on market or study on competition law may increase possibility to bridge the significant gap that appeared in the past negotiation.]

- [Local contents requirement]

- Necessity*; TBD depending on the discussion in the WP6

- Expected output*; TBD depending on the discussion in the WP6

- Achievability*; TBD depending on the discussion in the WP6]

- [Intellectual properties]

- Necessity*; TBD depending on the discussion in the WP6

- Expected output*; TBD depending on the discussion in the WP6

- Achievability*; TBD depending on the discussion in the WP6]

b) Institutional arrangement

The discussion could take place during WP6 meetings or in an Ad Hoc Negotiating group formally separated from the WP6. In both cases, the WP6 Secretariat will facilitate the discussion by preparing discussion papers.

C/WP6(2017)17

**Possible amendments of the Sector Understanding on Export
Credits for Ships**

COUNCIL
WORKING PARTY ON SHIPBUILDING

C/WP6(2017)17
For Official Use

Possible amendments of the Sector Understanding on Export Credits for Ships

21 November, 2017
Paris, France

This document describes proposals to include 1) current CIRR (minimum interest rate) provisions of the 2017 Arrangement on Officially Supported Export Credits in the Sector Understanding on Export Credits for Ships; and 2) Mobile Offshore Units in the SSU scope.

Action : SSU Participants are invited to discuss the potential amendment of the article 2 a) and the potential addition of new articles 6 and 7 in the SSU.

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JT03421152

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Background

1. The Sector Understanding on Export Credits for Ships (hereafter “SSU”) has been maintained by the SSU Participants who retain responsibility through the WP6 for that Understanding, in co-operation with the Participants to the Arrangement on Officially Supported Export Credits [C/WP6(2013)9/REV2]. Since 2012, the discussion on the SSU has been suspended in order to avoid duplication of work with the International Working Group on Export Credits (IWG), established in 2012, and to signal the OECD’s support for the multilateral talks taking place under the IWG. After having heard a report on the progress in the IWG, the WP6 decided at each meeting since 2012 to continue suspending the discussions at the IEG.
2. In April 2017, some delegates discussed at the 124th session of the WP6 on the possibility to include Mobile Offshore Units (MOUs) in the scope of the SSU. WP6 delegates notably asked the Secretariat to clarify the meaning of the last sentence of article 2 (a) of the SSU¹. This also triggered a discussion on the possibility to revise the SSU at WP6 meetings without reactivating the IEG. Following the clarification made by a representative of the Directorate for Legal Affairs at the 124th session of the WP6, it was considered possible to discuss a potential revision of the SSU at a WP6 meeting if all Participants to the SSU including the two countries which are not WP6 members (Australia and New Zealand) were invited to participate to this discussion [C/WP6/M(2017)1, Item 6].
3. At the same time, the Participants to the Arrangement on Officially Supported Export Credits along with their technical experts are currently working on possible reforms to the minimum interest rate (CIRR) regime. Since the SSU contains no corresponding provisions on interest rates or any aspect of the CIRR, the interest rate rules of the Arrangement apply. Should Participants to the Arrangement agree on CIRR reforms, the text of the Arrangement regarding CIRR would be modified and would, normally, be applicable to transactions supported according to the terms and conditions of the SSU. Therefore, in accordance with article 10c of the SSU, SSU Participants will have to examine this reform proposal and decide whether or not it should apply to the SSU.
4. Against this backdrop, the Secretariat invited the Participants to the SSU to the 125th session of the WP6 in order to discuss potential amendment of the SSU. The proposals from the Secretariat include; (i) potential addition of the provisions on validity of CIRRs and application of CIRRs (ANNEX I); and (ii) inclusion of MOUs in the scope of the SSU (ANNEX II). The proposed SSU text including these two changes is shown in ANNEX III.

Actions

5. SSU Participants are invited to discuss the potential amendment of the article 2 a) and the potential addition of new articles 6 and 7 in the SSU.

¹ Last sentence of article 2 (a) of the SSU : “*Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the “Participants”), after consideration of substantiated requests by any Participant, may decide that they shall be covered.*”

**ANNEX I: PROPOSAL TO INCLUDE CURRENT CIRR PROVISIONS OF 2017
ARRANGEMENT IN THE SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS
(SSU)**

I CONTEXT

6. The Participants to the Arrangement on Officially Supported Export Credits along with their technical experts are currently working on possible reforms to the minimum interest rate (CIRR) regime.

7. Since the SSU contains no corresponding provisions on interest rates or any aspect of the CIRR, the interest rate rules of the Arrangement apply. Should Participants to the Arrangement agree on CIRR reforms, the text of the Arrangement regarding CIRR would be modified and would, normally, be applicable to transactions supported according to the terms and conditions of the SSU. Therefore, in accordance with article 10c of the SSU, SSU Participants will have to examine this reform proposal and decide whether or not it should apply to the SSU. As stated in Article 10c, in the event that SSU Participants decide that the changes should not be applied, they would be obliged to enter into discussions with the participants to the Arrangement “*with a view to seeking resolution of the issues*”. In the end, however, it is for the SSU Participants to decide whether or not the changes in the Arrangement text related to the CIRR should apply to transactions supported according to the SSU.

8. On 1 September 2017, the Chairman of the technical experts to the Participants of the Arrangement circulated a proposal on CIRR operational reforms. In short, the proposal seeks to limit the time period during which a member can hold and lock-in a CIRR rate and sets a price for such practices. In order to take account of the particularities of the shipping sector mentioned by some Arrangement Participants who are also SSU Participants and in order to facilitate the emergence of a consensus among Participants to the Arrangement regarding the proposal, the Chairman suggested that it may be desirable as an interim measure for the SSU Participants to undertake the steps necessary for the changes not to be implemented for transactions supported according to the terms and conditions of the SSU.

II PROPOSAL

9. In order to allow sufficient time for the SSU Participants to undertake their assessment of the changes in respect of the SSU, and to avoid having this issue complicate the work being done by the Participants, the Chairman of the TEP has suggested that the current rules of the Arrangement regarding interest rates that are subject to change in his proposal (*i.e.* the rules which govern CIRR holding practices, including the pricing of interest rate holds) be maintained in the SSU.

10. In order to achieve this objective, it would be necessary for the current provisions of the Arrangement on the validity and the application of the CIRR to be imported into the text of the SSU, thus establishing the necessary corresponding provisions which would prevail instead of the text of the Arrangement. This would mean including current articles 21 and 22 of the Arrangement into the SSU (See Annex III). In practice, this would absolutely maintain the current obligations regarding interest rates for transactions supported according to the terms and conditions of the SSU and allow for current practices to continue unchanged until such time as the SSU has completed its assessment of the changes. In addition, delegate can note that including these articles on CIRR in the SSU would allow the SSU to take a step in moving towards becoming a stand-alone agreement.

ANNEX II: PROPOSAL TO INCLUDE MOBILE OFFSHORE UNITS IN THE SCOPE OF THE SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS (SSU)

I CONTEXT

11. At the 124th WP6 meeting, some delegates asked the Secretariat for clarification on the interpretation of the last sentence of article 2 a) of the SSU, notably on whether Mobile Offshore Units (MOUs) fall under the scope of the SSU. Although the SSU does not cover MOUs, it does not simply exclude MOUs from its scope, as it provides a possibility to include MOUs in the scope of the SSU after consideration of substantiated requests by any Participant to the SSU.

- Last sentence of article 2 a) of the SSU: “...*Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the “Participants”), after consideration of substantiated requests by any Participant, may decide that they shall be covered.*”

12. As some WP6 delegates showed interest on including MOUs in the scope of the SSU, SSU Participants may discuss if they wish more broadly on the coverage of the SSU at the 125th session of the WP6, as all SSU Participants including Australia and New Zealand have been formally invited to participate in the session of the WP6 on export credits for ships.

II PROPOSAL

13. The potential amendment allowing the inclusion of MOUs in the SSU scope would require the following changes:

- removing “*and mobile offshore units*” from the last sentence of the article 2 a)
- adding “*mobile offshore units,*” into the brackets of the first sentence of the article 2 a) (see ANNEX III).

ANNEX III: PROPOSED NEW SSU TEXT**CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING****1. PARTICIPATION**

The Participants to the Sector Understanding are: Australia, the European Union, Japan, Korea, New Zealand and Norway.

2. SCOPE OF APPLICATION

This Sector Understanding, which complements the Arrangement, sets out specific guidelines for officially supported export credits relating to export contracts of:

1. Any new sea-going vessel of 100 gt and above used for the transportation of goods or persons, or for the performance of a specialised service (for example, mobile offshore units, fishing vessels, fish factory ships, ice breakers and as dredgers, that present in a permanent way by their means of propulsion and direction (steering) all the characteristics of self-navigability in the high sea), tugs of 365 kw and over and to unfinished shells of ships that are afloat and mobile. The Sector Understanding does not cover military vessels. Floating docks ~~and mobile offshore units~~ are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the "Participants"), after consideration of substantiated requests by any Participant, may decide that they shall be covered.
2. Any conversion of a ship. Ship conversion means any conversion of sea-going vessels of more than 1 000 gt on condition that conversion operations entail radical alterations to the cargo plan, the hull or the propulsion system.
3. 1) Although hovercraft-type vessels are not included in the Sector Understanding, Participants are allowed to grant export credits for hovercraft vessels on equivalent conditions to those prevailing in the Sector Understanding. They commit themselves to apply this possibility moderately and not to grant such credit conditions to hovercraft vessels in cases where it is established that no competition is offered under the conditions of the Sector Understanding.
2) In the Sector Understanding, the term "hovercraft" is defined as follows: an amphibious vehicle of at least 100 tons designed to be supported wholly by air expelled from the vehicle forming a plenum contained within a flexible skirt around the periphery of the vehicle and the ground or water surface beneath the vehicle, and capable of being propelled and controlled by airscrews or ducted air from fans or similar devices.
3) It is understood that the granting of export credits at conditions equivalent to those prevailing in this Sector Understanding should be limited to those hovercraft vessels used on maritime routes and non-land routes, except for reaching terminal facilities standing at a maximum distance of one kilometre from the water. TAD/PG(2017)1

CHAPTER II : PROVISIONS FOR EXPORT CREDITS AND TIED AID

3. MAXIMUM REPAYMENT TERM

The maximum repayment term, irrespective of country classification, is 12 years after delivery.

4. CASH PAYMENT

The Participants shall require a minimum cash payment of 20% of the contract price by delivery.

5. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

- a) The principal sum of an export credit shall be repaid in equal instalments at regular intervals of normally six months and a maximum of 12 months.
- b) Interest shall be paid no less frequently than every six months and the first payment of interest shall be made no later than six months after the starting point of credit.
- c) For export credits provided in support of lease transactions, equal repayments of principal and interest combined may be applied in lieu of equal repayments of principal as set out in paragraph a).
- d) Interest due after the starting point of credit shall not be capitalised.
- e) A Participant to this Sector Understanding intending to support a payment of interest on different terms than those set out in paragraph b) shall give prior notification at least ten calendar days before issuing any commitment, in accordance with Annex VIII of the Arrangement.

6. VALIDITY OF CIRR_s

The interest rate applying to a transaction shall not be fixed for a period longer than 120 days. A margin of 20 basis points shall be added to the relevant CIRR if the terms and conditions of the official financing support are fixed before the contract date.

7. APPLICATION OF CIRR_s

- a) Where official financing support is provided for floating rate loans, banks and other financing institutions shall not be allowed to offer the option of the lower of either the CIRR (at time of the original contract) or the short-term market rate throughout the life of the loan.
- b) In the event of a voluntary, early repayment of a loan of or any portion thereof, the borrower shall compensate the government institution providing official financing support for all costs and losses incurred as a result of such early repayment, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

8. MINIMUM PREMIUM

The provisions of the Arrangement in relation to minimum premium benchmarks shall not be applied until such provisions have been further reviewed by the Participants to this Sector Understanding.

C/WP6(2017)18

**Summary of previous shipbuilding negotiations and recent
changes in the shipbuilding industry**

COUNCIL
WORKING PARTY ON SHIPBUILDING

C/WP6(2017)18
For Official Use

Summary of previous shipbuilding negotiations and recent changes in the shipbuilding industry

21 November, 2017
Paris, France

*Action: This document is submitted for discussion following the request of the WP6 at its 124th session.
It is intended to serve as background to the discussion on the WP6 Instrument Review.*

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JT03422098

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EXECUTIVE SUMMARY

The main aim of the WP6 is to restore normal competitive conditions in the shipbuilding industry. In order to achieve this goal, the WP6 members have tried several times to conclude a Shipbuilding Agreement (SBA) in the past, which has so far not resulted in a binding agreement.

In its 124th session in April 2017, WP6 member countries requested a summary of previous attempts to conclude a Shipbuilding Agreement in order to learn from discussions in the past.

This paper follows this request and aims to give an overview of previous attempts to conclude a SBA. In doing so, it focuses on disagreements between countries split by specific provisions of the agreement, especially during the negotiations from 2002 to 2005. This might help delegations to gain an insight into the reasons explaining the failure of previous discussions and might ideally contribute to avoiding these in any prospective future attempt to conclude a new shipbuilding instrument. The review of the latest attempt to restart negotiations in 2010 could also help delegates to deepen their understanding of the reasons for previous failures.

The SBA developed in 2005 is mainly composed of the support measures discipline and pricing discipline. Despite its eventual failure to conclude an agreement, the negotiations in the Special Negotiating Group (SNG) from 2002 to 2005 showed the potential for compromise of many parties and revealed considerable flexibility on all sides concerning the support measures discipline. Meanwhile, the major unresolved issue was if (and how) to include a pricing discipline. Eventually, at the 12th session (high level meeting) of the SNG, the Chairman reported to the SNG that in his view without some kind of common ground on the issue of pricing there was little likelihood of concluding an agreement and concluded to suspend, or pause, the negotiation for an unspecified term (C/WP6/SNG(2005)4). In 2010, the effort to restart negotiations failed before a common mandate could be defined due to the same reason (i.e. inclusion of pricing discipline).

Over the past decade, the shipbuilding industry has experienced a significant decline. The industry has recently faced a persistent situation of excess capacity with capacity utilisation rates (CURs) ranging between 50% and 60% which is significantly lower than CURs in 2005 and 2010 when the past negotiations were paused. In this persistent situation of low shipbuilding industry activity, government interventions (i.e. support measures) to the shipbuilding industry appear to be significant. Thus, establishing normal competitive conditions and ensuring well-functioning market mechanisms has become an ever more pressing issue in recent years.

Introduction

1. With the objective of establishing normal competitive conditions in the shipbuilding industry, the WP6 has tried several times to conclude a binding Agreement tackling these issues. So far, these efforts have not been successful. While the agreement in 1994 had been successfully negotiated but did not enter into force, the negotiations in 2002 to 2005 were paused due to insurmountable disagreements. Efforts to restart negotiations in 2010 had to be given up before a common mandate could be defined.

2. In its 124th session in April 2017, WP6 member countries requested a summary of previous attempts to conclude a Shipbuilding Agreement as well as an overview over market changes. This paper provides this summary. The lessons learnt shall help to facilitate future negotiations and inform about potential caveats before they might occur. It also describes the changed market circumstances that underline that a discipline in the shipbuilding market is required for the economic health of the industry.

Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding And Repair Industry

Background

3. Signed in 1994 after five years of negotiation, the “Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry” (hereafter “the 1994 Agreement”) was due to enter into force on 15 July 1996 once all Parties ratified the Agreement. With the Commission of the European Communities, and the Governments of Finland, Japan, the Republic of Korea, Norway, Sweden and the United States taking part, the Agreement covered about 80% of the world’s shipbuilding industry at the time. Establishing legally binding measures, the 1994 Agreement was seen as a major step towards restoring normal competitive conditions. With its wide coverage it was also hoped that it could exert some gravitational pull and set a standard for other major shipbuilding economies. The entry into force clause stipulated that the Agreement required the ratification by all members in order to become effective. As the U.S. was unable to ratify the Agreement, it has never entered into force.

Provisions

4. The 1994 Agreement covers a wide range of direct as well as indirect support measures that would be prohibited. This also included a reference to pricing and a binding dispute settlement body. Despite this comprehensive coverage, the Agreement also contained some measures that were excluded from prohibition. The four permanent exceptions were export credits, home credits, R&D support and social support for displaced workers.

5. Further exceptions were granted to restructuring programmes that were currently underway (for shipyards in Korea, Belgium, Portugal and Spain) as well as clauses to account for the “Jones Act” in the United States which includes domestic build provisions.

6. Should a country be found guilty of violating the 1994 Agreement, the chosen remedy was for the respective country to discontinue the prohibited support measure and for the shipyard to pay back the received monies. In case of non-compliance the sanctions could include a denial to the shipbuilder in question to complain about dumping or suspending concessions for products by the country adversely affected by the subsidies. In determining such suspensions, preference should be given to those that are related to the product or products associated with the violation. (Article 8 of the 1994 Agreement)

The Injurious Pricing Code

7. Because of the difficulty to include such a provision in later shipbuilding agreements, the Injurious Pricing Code in the 1994 Agreement is especially interesting to note. It was the first (and so far only) time an anti-dumping instrument was applied for the case of shipbuilding. The injurious pricing code closely resembled the according regulation in GATT 1994 and adapts it for shipbuilding.

8. After the initiation of one Party to the Agreement claiming to be injured by pricing practices from another, investigation authorities would become active. In a first step they would try to determine injurious pricing by comparing the price of the vessel with either the price of a like vessel (either exported from the accused country or its domestic price) or the production costs of the vessel plus a normal profit margin. In a second step they would try to ascertain whether the export of the vessel actually did harm the complainant's domestic industry by looking at various factors like sales and profits but also employment, wages, etc.

9. If found guilty, the shipbuilder in question would have to pay an 'injurious pricing charge' or alternatively void the sale of the vessel. In case no action would be taken within 180 days, sanctions could be applied. These would consist of the complainant denying onloading and offloading privileges for ships from this shipbuilder for a maximum of four years, resulting in a potential loss of orders for the shipbuilder in question.

The eventual pitfall: the entry into force clause

10. Although successfully negotiated, the 1994 Agreement could not enter into force, as the ratification of all members was required. This, however, did not happen, so that the Agreement never entered into force. Subsequent negotiations have been, and continuously will have to be, aware of this issue. Defining a minimum percentage of shipbuilding economies instead of naming all countries that have to ratify the agreement might be an alternative.

Negotiations for a new Shipbuilding Agreement from 2002 to 2005

Background

11. In order to ascertain the support for a new shipbuilding Agreement, the European Commission, Japan, Korea and Norway initiated an industry hearing that was held in April 2002. This meeting revealed substantial support for a new agreement (as referred to in [C/WP6\(2002\)7](#)). In its report, the Secretariat also mentioned the view of the industry that the 1994 Agreement would not be sufficient to address all pertinent questions, making necessary a more comprehensive overhaul, which should also include major non-OECD shipbuilding economies. During the 101st session of the WP6, the proposal to convene a Special Negotiation Group in order to restart negotiations about a Shipbuilding Agreement that also included non-OECD economies was met with broad support by WP6 members ([C/WP6/M\(2002\)1](#)).

12. In June 2002, the OECD Council gave the Special Negotiating Group a mandate for discussions until 2004, which was later extended to the end of 2005. The mandate outlined the aim to negotiate a new Shipbuilding Agreement until the end of 2005, which would be aimed "to bring about normal competitive conditions in the world commercial shipbuilding and repair industries." (as referred to in [C/WP6\(2007\)3](#)).

13. This overview draws on original positions found in the summary records of SNG meetings as well as the last considered draft agreement text (Working Paper 5/Rev1) and the subsequent compromise proposal (Working Paper 6) provided by the Secretariat for the 12th and last session of the SNG. The OECD "Report On The Final Status Of The Negotiations On A New Shipbuilding Agreement" ([C/WP6\(2007\)3](#)) also provides a very insightful overview of the negotiations from 2002 to 2005.

Issues discussed

Coverage and entry into force

14. During the first session of the negotiations, the Special Negotiating Group (SNG) suggested that the agreement should apply to commercial shipbuilding as well as ship repair, but leave out military vessels. No agreement on the size of ships to be covered could be found, but tugs were to be included from 365kW and above.

15. In later sessions, the Delegate of China proposed 1 000 gt as a threshold, and also suggested that the minimum size of tugs should be increased accordingly (which was set at 365kW and above in the previous meeting). He also noted that “domestic fishing vessels” should not be covered. Furthermore, China suggested that “reconditioning” and “repairing” should not be included in the coverage of the new Agreement. Other delegations as well as the Secretariat however supported including ship repair, as those facilities could also be used for ship building.

16. In the Working Paper 5/REV1, agreement was found on including tugs from 365kW, but no consensus had been reached on the threshold for ships, for which delegates remained divided between 100 and 1 000 gt. In the Secretariat’s compromise proposal (Working Paper 6), presented at the 12th meeting, it was mentioned that the Agreement would cover ships over and including 100 gt and fishing vessels over and including 500gt, as well as tugs with 365 kW and above. The original wording of “military vessels” was changed to “government service vessels” in order to also include patrol boats for instance, which were to be excluded from the Agreement. For ships and tugs, these arrangements represent the same threshold as in the 1994 Agreement, while fishing vessels had not been excluded previously.

17. Concerning the entry into force clause, different options had been raised during the first meeting; among those were an entry into force after a minimum number of parties and minimum proportion of shipbuilding economies signed the agreement. Specifically mentioning key shipbuilding economies necessary to ratify was also considered. In Working Paper 5 /Rev1, no consensus (like specific percentages) on this issue had been reached.

Differential Treatment and Eligibility Criteria

18. During the negotiations, all parties agreed to include provisions for differential treatment in the agreement. There were, however, different positions on the eligibility criteria concerning this treatment. These were:

- 1) CGT per employee below a defined threshold¹
- 2) share of world shipbuilding output
- 3) shipbuilding output per capita
- 4) GDP PPP threshold

19. Option 1) was seen as not feasible by some delegates as it seemed to be an unreliable measurement. China and Romania however maintained it would be possible to achieve a precise value (see [C/WP6/SNG/M\(2004\)4/REV1](#)). Option 2) was opposed by the Chinese delegation, which rather suggested Option 3). This proposal was in turn rejected by the Delegate of Japan, who pointed out that shipbuilding was concentrated in the coastal region and thus should not take into account the size of the entire country.

¹ Among the three main shipbuilding economies, Korea currently has the highest output in CGT per employee, ahead of Japan and China.

20. The compromise proposal in Working Paper 6 suggested Option 4) as a single criterion, namely that economies with a GDP per capita in current prices of less than \$US 3 000 per annum shall be eligible for differential treatment. This status would expire on 31 December 2013 (which represented a time horizon of about 8 years) or if the economy in question exceeded \$US 3 000 GDP per capita in current prices during two consecutive years, whichever comes first. During the 12th meeting, both Japan and China pointed out specifically that this would not reflect their respective original position, but that they were willing to consider the proposal.

21. Concerning the rights arising from differential treatment, China opposed the view of many delegations that differential treatment should not lead to capacity expansion, as this would hinder the development of the respective countries because development would often go together with capacity expansion. The Delegate of China rather suggested the following three measures:

- a) Longer transition periods for developing countries
- b) Special consideration in implementing domestic or international measures against developing economies
- c) Flexibility for developing countries in their commitments, actions or use of policy instruments

22. In the compromise proposal, the Secretariat suggested that Articles 3.2 (c) and (d), which were respectively prohibiting subsidies for investment and modernisation, would not apply to those parties eligible for differential treatment. This right would be subject to prior notification about the respective subsidy. Should no prior notification about these subsidies have taken place, then they would be automatically become prohibited.

Subsidies

General approach

23. During the first few sessions, broad support emerged for a so-called *WTO Plus* approach. Starting from the *WTO Agreement on Subsidies and Countervailing Measures (ASCM)*, this approach would extend the scope of subsidies as compared to what is in the ASCM based on the presumption that subsidies are generally market distorting, but some (like closure aid) not in a way that they should be prohibited. The rationale for using ASCM as a basis was to avoid ending up with an undesirable *WTO Minus* agreement. Adding more subsidies to the list of prohibited measures would allow accounting for the idiosyncrasies in the shipbuilding industry.

24. Japan supported this approach mentioning that all subsidies are market distorting, and thus should be disciplined ex-ante. While production and modernization subsidies should be prohibited, others like R&D subsidies could be exempted.

25. Korea as well agreed to use this definition, not necessarily because all subsidies would be market distorting, but because government support measures are the real cause for market distortions and thus require strict regulation.

26. China, however, strongly opposed the *WTO Plus* approach and argued that the WTO ASCM regulations would be sufficient. It named several reasons why this would be the case. China argued that the discussion should not be based on the assumption that all subsidies are trade-distorting. It stated that it had not found any other subsidy to be market distorting than those already prohibited by the WTO ASCM. Furthermore, China considered the idea of *WTO Plus* a prohibition approach and argued it would inhibit growth in developing countries. The approach would also allow for easier litigation, as only the existence of a prohibited subsidy would be enough to trigger measures. This, according to the Chinese delegation,

might result in “frivolous litigation”, harming the normal competitive conditions as it might become a tool for shipbuilders to proceed against competitors. Furthermore, even an ex ante prohibition would not guarantee compliance. Finally, actionable subsidies that are shown to be market distorting would still be prohibited (on China’s position see also “The Subsidy Discipline And The “WTO Plus” Concept, Comments by the Chinese Delegation” ([C/WP6/SNG\(2004\)7](#))).

27. The Delegate of the EU mentioned in response that most of the subsidies in the Annex of the WTO ASCM were included not based on their market distorting effect but on political consideration. Moreover, using ex post evaluations in the case of shipbuilding would be rather complicated.

28. Due to the controversy in this issue, the Secretariat provided a compromise (Support measures discipline: Proposal by the Secretariat ([C/WP6/SNG\(2004\)17](#))). This compromise for the draft proposal outlined three different categories of subsidies, namely prohibited subsidies, actionable and non-actionable subsidies. These are detailed in the following.

Prohibited subsidies

29. While the Working paper 5/REV1 only indicates an agreement on prohibiting subsidies for the production of ships, there was a good chance that consensus could be reached for a more extensive list of subsidies to be prohibited. Namely, the compromise proposal included subsidies prohibited by the WTO’s ASCM and article 3.2 (a)-(e) of the compromise proposal, which includes subsidies for the production of ships as well as for shipyard operation, investment, and modernisation.

Actionable and non-actionable subsidies

30. It was agreed that actionable subsidies should be dealt with in the same way as in the WTO ASCM framework ([C/WP6\(2007\)3](#)). In general that would mean that a member who claims its industry had been harmed by an actionable subsidy by a third country would have to provide evidence that a) this subsidy exists and that b) the domestic industry had been adversely affected (Working Paper 5/REV1, Article 18).

31. Concerning non-actionable subsidies, there was general consensus that this list should be relatively short, but disagreement on *how* short exactly. Various kinds of subsidies had been considered to be non-actionable. Until Working Paper 5/REV1, parties only agreed that aid for closure should be non-actionable. Discussions about whether this should be considered on the company or yard level revealed that due to international investments, yard level would be more a reasonable measure and it should be made sure that these yards are closed permanently. In its ensuing compromise proposal, the Secretariat suggested the aid for closure of yards, support for R&D as well as aid to promote privatisation as items for non-actionable subsidies. No agreement was reached, however, on the specific thresholds until which this kind of support would be allowed.

Other prohibited support measures

32. The last draft agreement mentioned

- (a) Partial or total nationalisation of the industry;
- (b) Cargo reservation schemes directly linked with domestic shipbuilding and repair requirements;
- (c) Domestic build, repair or domestic content requirements that discriminate in favour of the domestic industry;
- (d) Any government regulation, practice or other measure aimed at ship owners and other third parties intended to facilitate the purchase of domestically produced vessels.

33. As all of these were in square brackets, no consensus was found on these issues. In the final compromise proposal, only points b) and c) remained.

Notifications

34. In the last draft agreement, consensus was reached for most of the clauses pertaining to notifications, which extended requirements of the ASCM to other support measures than subsidies. The only unresolved issue was the question about the consequences in case a Party did not meet its notification requirements.

Dispute settlement and remedies

35. Several options concerning the dispute settlement were discussed during the negotiations. Among those were the use of the WTO system on a fee-for-service basis or other international arbitration mechanisms – ideas that were soon dropped. The final conclusion was to set up an own dispute settlement framework within the Agreement, which should eventually be integrated in the WTO Dispute Settlement Understanding (DSU).

36. Remedies were agreed to be the withdrawal of the subsidy in the case of a prohibited subsidy and the withdrawal or the removal of adverse effects in the case of an actionable subsidy. In the case of non-compliance, appropriate countermeasures could be taken. The repayment of subsidies was also considered, but China and Korea named potential legal problems for this procedure.

Export and home credits

37. During the negotiations, China took the stance that export subsidies would not have to be considered in the Agreement, as they were already addressed by the ASCM in the second paragraph of Item (k) of the Illustrative List of Export Subsidies.

38. According to the Working Paper 5/REV1, consensus had eventually been reached that export credits along the lines of the Sector Understanding on Export Credits for Ships and the Arrangement on Officially Supported Export Credits would not to be prohibited.

39. Delegates did agree less on home credits however and diverging views were expressed. Korea was in favour of re-examining the issue of home credits (C/WP6/M(2003)2). Most delegates agreed that home credits should be treated in the same way as export credits. Opposing this view, China argued that home credits would be covered in the WTO ASCM anyway and thus would not have to be included in the new agreement (C/WP6/M(2005)1). An expert group was also divided between these two options of either excluding the issue or treating it in the same way as export credits (C/WP6/M(2005)3). China eventually also argued that considering home credits is not necessary as shipowners can choose a flag of convenience (C/WP6/M(2005)2). In the draft text, no agreement on this issue was found.

Pricing

40. When the 12th session proceeded to the issue of pricing, the delegates from Korea and China pointed out that they had always been opposed to a reference on pricing in the agreement. In previous negotiations, this position has been justified by references to expert meetings which would have shown that no discipline on pricing and other market distorting practices was necessary and the issue had been discussed exhaustively. Eventually, however, Korea and China expressed their willingness to discuss the compromise proposal (in Working Paper 6) submitted by the Secretariat, which resembled a proposal made by Japan. This proposal outlined that prices should

- a) not be affected by government support measures;
- b) be based on commercial considerations, including the reflection of competitive advantages;
- c) not be affected by pricing practices as determined by Article 2 of the WTO Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade.

41. Based on regular submissions of contract prices of ships ordered or built within territories of members to the agreement, the Secretariat would provide price trends in cgt for each ship type. The extent of this reporting remained to be discussed. Using these price trends as reference, parties could bring to the attention of the Party's Group any sales that it deemed to be significantly lower priced than the general trend. However, this proposal did not include any provisions on sanction mechanisms such as a Panel with investigating power, remedies and countermeasures.

42. The EU included it in its own proposal as well, which was similar to the Injurious Pricing Code in the 1994 Agreement. The EU delegation also stated that, as this proposal was based on the respective WTO anti-dumping regulation, it should be acceptable to all parties. It furthermore stressed that if there is no consensus found on the pricing issue now (during that round of negotiations), it is unlikely to be included in future negotiations.

43. Despite Japan's call for flexibility on this issue, ensuing consultations revealed that the differences were insurmountable and the negotiations were thus paused.

Summary of agreements and disagreements

44. The issues of the support measures discipline and differential treatment were resolved in the negotiations described above as part of an overall package. When comparing this to the great gap in initial positions, the convergence in views showed considerable progress. Despite the eventual failure to conclude an agreement, the negotiations from 2002 to 2005 thus showed the potential for compromise of many parties and revealed considerable flexibility on all sides. The draft agreement reached in 2005 could eventually be used as a starting point for future negotiations if participants to the new negotiations agree.

45. A number of unresolved issues remain however; among those the described argument on how to include home credits in the agreement. The major unresolved issue was if (and how) to include a pricing discipline. Eventually, at the 12th session (high level meeting) of the SNG, the Chairman reported to the SNG that in his view without some kind of common ground on the issue of pricing there was little likelihood of concluding an agreement and concluded to suspend, or pause, the negotiation for an unspecified term. (C/WP6/SNG(2005)4).

The negotiations for a new mandate for a SBA in 2010

46. In his opening statement to the meeting held on 26 April 2010, the Chairman, Ambassador Harald Neple (Norway), noted that according to his observations during previous informal meetings with the Group of Four (i.e. China, EU, Japan, and Korea), the support for a shipbuilding agreement had been weakened compared to five years ago, when the necessity for such an agreement was not questioned. He also indicated that previous negotiations mainly failed due to disagreements among OECD member countries (C/WP6/M(2010)1).

47. All member countries agreed that a continuation of discussions would be reasonable at this point of time as long as all major shipbuilding economies namely the Group of Four consisting of China, the European Union, Korea and Japan, would participate.

48. On 30 – 31 August 2010, the Group of Four met for an informal meeting during which it discussed possible versions of a negotiating mandate. Despite reported progress, the pricing issue again remained unresolved (C/WP6(2010)13).

49. Prior to the second meeting that year, taking place on 12 November 2010, both the EU and Korea submitted proposals for the factors to be covered by the negotiations, which differed substantially. While the EU proposal included pricing and other market distorting factors, the Korean suggestion mentioned that participants should address all factors that they would agree are distorting normal competitive conditions. Seeing the wide gap between these two proposals, the Secretariat also submitted a compromise proposal (C/WP6(2010)13) suggesting that all issues should be discussed but not necessarily included in the final agreement. The Chairman's proposal was to be considered should no consensus on the two other documents emerge during the upcoming meeting.

50. During the 111th meeting, the Secretariat presented the outcome of the informal meeting in Tokyo and the three proposals mentioned above. Korea also mentioned that it could consider the proposal made by the Secretariat contained in Working Document 6 from 2005. After discussions, both formal and informal, it became evident that despite all efforts, no agreement could be found on one proposal or any variation thereof. The Chairman consequently suggested to terminate the negotiations and mentioned that he would report to the OECD Council accordingly. Japan's proposal to use the momentum in order to further discuss about distorting factors in the shipbuilding industry did not find support among other delegates. In response to the termination, many delegations expressed their regret that the negotiations on a SBA could not be launched successfully and some stressed the nevertheless continuing relevance of the WP6 (C/WP6/M(2010)2).

Recent Market Development and Prospects For Future Negotiations

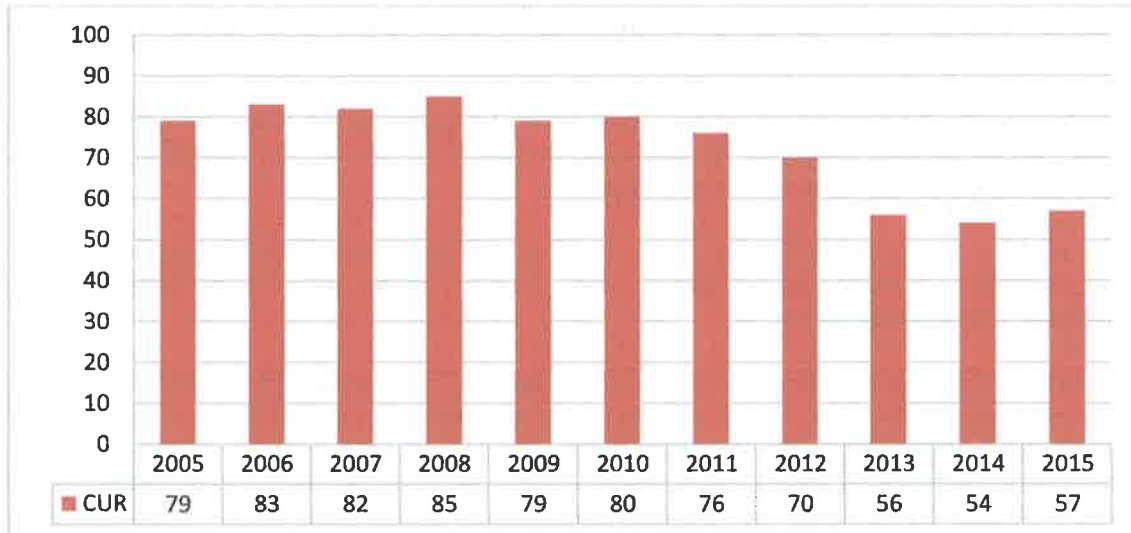
51. As pointed out during the April 2017 WP6 meeting, the shipbuilding market has changed substantially since the last attempts to conclude a shipbuilding agreement. Not only have the market shares shifted, but the intensity of support measures also appears to have increased. It should be however noted that a comprehensive assessment of support measures is not achievable despite of the efforts made by the WP6 in the context of the WP6 Inventory of support measures, the report of support measures taken by economies not participating in the WP6 Inventory and WP6 Peer Reviews. This section shall try to discuss in what way these changes on how to tackle normal competitive conditions and excess capacity of shipbuilding industry.

Market changes

52. While excess capacity has been a major concern of the WP6 during previous negotiations, capacity utilization rates have decreased even further since the last effort to conclude a shipbuilding

agreement in 2010. According to a recent WP6 report (*Imbalances In The Shipbuilding Industry And Assessment Of Policy Responses*, [C/WP6\(2016\)6/FINAL](#)), current capacity utilization rates (CUR) are significantly lower than they have been during the times of previous negotiations (Figure 1).

Figure 1. Capacity Utilization Rates



Source: OECD (2016) *Imbalances In The Shipbuilding Industry And Assessment Of Policy Responses* ([C/WP6\(2016\)6/FINAL](#))

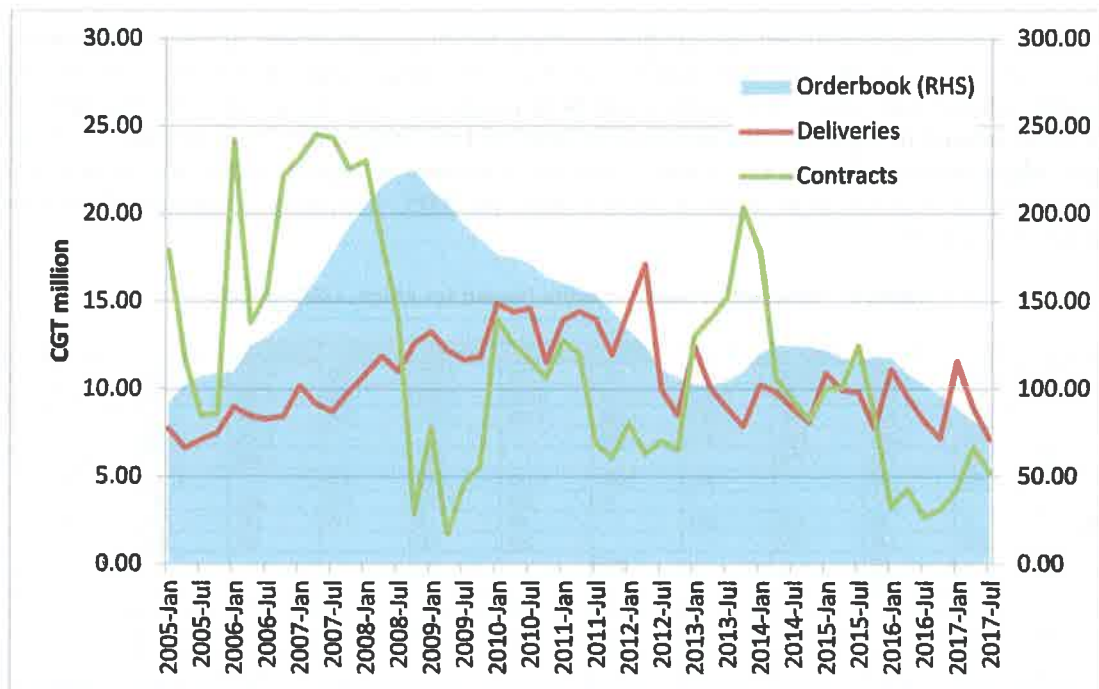
53. When negotiations were paused in 2005, CUR was at 79% and reached 80% in 2010 when efforts were made to continue the negotiations. Current CUR values are significantly lower, ranging between 50% and 60%. The last time CUR has been at such low levels was in the mid-90s, when the 1994 Agreement was negotiated successfully. The number of active yards² is lower than it has been in a decade. At the beginning of 2009 there were still 934 active yards. This number has declined steadily and more than halved to 358 in July 2017 (Clarksons Research 2017). However, this decline does not necessarily imply that the shipbuilding facilities (i.e. number of yards or docks) have been curtailed proportionally to the decrease in the number of active yards.

54. With regard to demand for newbuilding, the current world order book with 76 million CGT is as low as it has been in over a decade (as of October 2017). The same is true for newbuilding contracts. There were only 826 new contracts totalling 22.2 gt (13.2 cgt) in 2016, again values not seen as low in over ten years³ (Figure 2).

² An active yard is defined as a shipyard with at least one vessel larger than 1 000 GT on order.

³ In annual terms. Quarterly contract values were partly lower around 2009 than today as seen in the graph, but annual values are lower today.

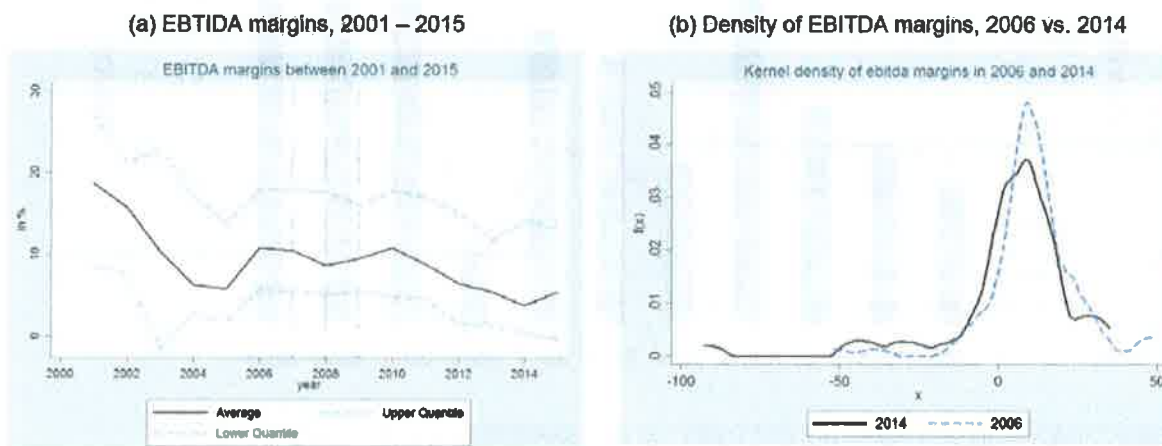
Figure 2. Market Situation



Source: Clarksons World Fleet Register, Quarterly data

55. The above described increase in excess capacity went hand in hand with a decrease in newbuilding prices. Current newbuilding prices are significantly subdued. The Clarksons Newbuilding Price Index reached its lowest value in over 10 years in the first quarter of 2017 (see Clarksons Newbuilding Price index). These low prices represent muted demand that has been hitting the shipbuilding industry. The operating profitability of shipbuilding companies (Ebitda over sales) decreased from 10% to 4% between 2010 and 2014 as can be seen in the following Figure 3.

Figure 3. Selected financial indicators for shipbuilding companies



Source: OECD (2016) Imbalances In The Shipbuilding Industry And Assessment Of Policy Responses (C/WP6(2016)6/FINAL)

Changes in selected support measures

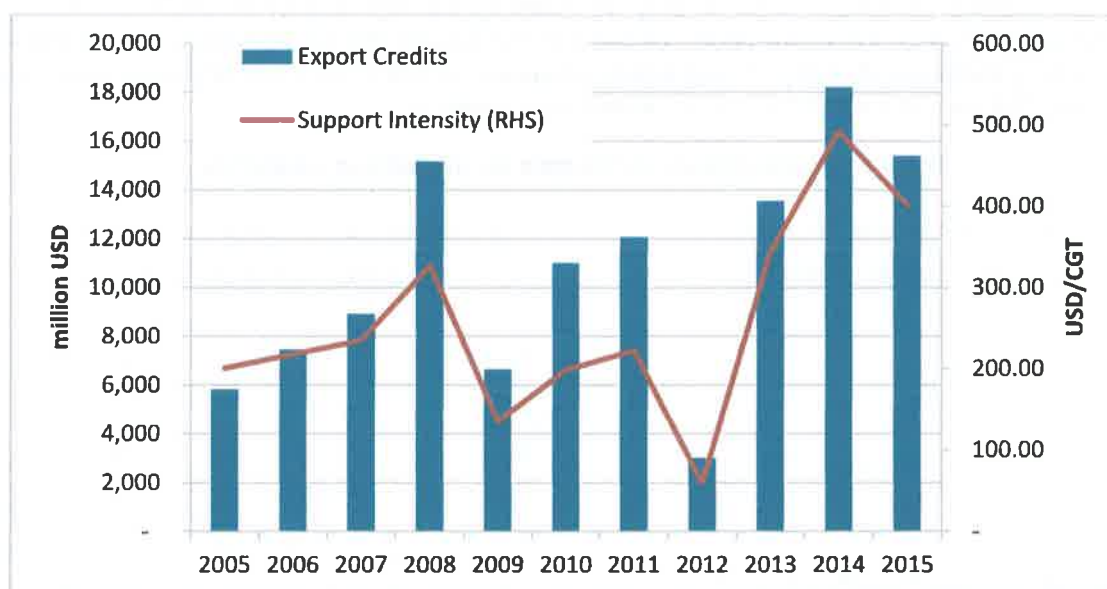
56. The above section outlined the subdued demand for ships represented in a short orderbook and resulting in few active yards and low profits. At the same time, selected measures of government interventions indicate that government support has been increasing over the last decade. The table below shows how the amount of export credits increased in selected OECD countries. This development becomes even more salient when looking at the support intensity, measured as export credits per cgt produced. In 2015, this measure was twice as high as it has been in 2005, indicating a substantial increase in government intervention.

Table 1. Amount of export credits issued for ships, USD million

Member country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Korea	2,339	2,925	2,850	7,418	1,436	1,339	2,997	392	4,752	5,734	6,656	38,839
Norway	-	1,013	59	1,422	2,151	5,459	2,909	943	4,856	1,709	261	20,781
Germany	1,399	1,328	650	3,078	1,160	2,424	2,742	269	230	4,122	1,981	19,384
Italy	1,082	1,025	869	1,210	545	-	-	-	1,594	2,696	1,113	10,135
France	413	420	3,779	-	-	-	631	-	1,520	1,470	1,292	9,526
Finland	364	195	-	1,016	1,050	1,130	489	639	-	1,117	3,307	9,308
Japan	-	114	-	1	35	281	2,072	622	281	942	633	4,981
Netherlands	7	30	485	964	-	66	8	115	147	251	20	2,094
Poland	218	245	181	-	-	251	106	-	109	158	120	1,390
Denmark	-	62	-	-	209	-	-	-	-	-	-	271
Australia	-	86	-	53	-	-	-	-	-	-	-	139
Spain	-	-	-	-	13	44	19	20	18	-	-	114
Portugal	-	-	-	-	-	-	84	-	-	-	-	84
Austria	-	-	31	-	26	-	-	-	20	-	-	77
Canada	5	-	-	-	-	-	-	-	-	-	-	5
Total	5,828	7,443	8,905	15,162	6,626	10,993	12,058	3,000	13,527	18,200	15,384	117,127

Source: Review of the Arrangement for Official Export Credit Support Related to the Shipbuilding Industry (2005-2015) [C/WP6(2016)9]

Figure 4. Export Credits Intensity



Note: Export Credit Intensity is calculated as Export Credits over CGT (USD/CGT) delivered by year.

Source: OECD Calculation based on Clarkson World Fleet Register and Review of the Arrangement for Official Export Credit Support Related to the Shipbuilding Industry (2005-2015) [C/WP6(2016)9]

57. Figure 5 shows the volume of completions for the top 50 shipyards between 2000 and 2015. Shipyards are categorized as “state-involved” in case their shares, they have been owned, even in minority (>1%), by government or any other public bodies, and otherwise falls under the category “pure private”. The share of completion volume of ships built by state involved shipyards has been increasing substantially since 2000, when 2/3 of completions originated in those yards, to 3/4 in 2015.

Figure 5. Completion volume of top 50 shipyards between 2000 and 2015, cgt



Note: Identification of state involvements in companies' share was based on the Clarkson WFR (accessed on 18 July 2017) and OECD peer review reports taken place 2012-2016. Shipyards falls under state-involved is their shares, even in minority (>1%), have been owned by government or any other public bodies, and otherwise falls under pure private.

Source: Based on OECD calculations from peer reviews (Japan and Korea) and Clarkson WFR for China. Fincantieri (Italy) is the only firm in top 50 outside these three countries.

58. Studies show that government support measures have significantly contributed to shape the current situation in the shipbuilding industry. Kalouptsidi (2017) finds evidence that industrial policy intervention led to a reduction of shipyard costs by 13-20% for selected shiptypes and ship classes (Handy Size) in China which corresponds to 1.5 to 4.5 billion USD dollars between 2006 and 2012, and have contributed to shift the market shares in the international shipbuilding market.

Potential benefit for future negotiations

59. The shipbuilding industry is always proceeding in cycles. *Per se*, economic cycles exist in all kinds of sectors. Due to its specific characteristics and current imbalances, however, they might be more severe in the shipbuilding sector. Selected indicators of government intervention to shipyards in a form of export credit and/or through owning shipyards' stocks have been increasing. In the last 10 years, the industry has experienced a significant decline and still faces excess capacity problems with a significantly low level of CUR ranging between 50% and 60%. Therefore, ensuring normal competitive conditions and thus giving the industry the opportunity of structural changes based on well-functioning market mechanisms has become an ever more pressing issue.

60. If WP6 members felt the need to negotiate a new Shipbuilding Agreement in 2002 and 2010, times when the market environment was more favourable than it is today, then the above mentioned recent market developments would suggest that an agreement would be even more necessary today than before. Moreover, having an agreement would also be useful for future downturns in upcoming cycles.

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The Subsidy Discipline And The "WTO Plus" Concept, Comments by the Chinese Delegation" ([C/WP6/SNG\(2004\)7](#))

附件四：會議簡報內容



- Item 1: Agenda
 - The agenda was adopted.
- Item 2: Summary record
 - The summary record of the previous meeting was adopted.



Item 3. WP6 Instrument review (Presentations)

- As no objections were received, a representative from the US attended session 3.
- The Secretariat made a presentation on the summary of previous negotiations for a shipbuilding agreement and market changes in the shipbuilding industry.
- Japan presented the main outcomes of their bilateral meeting with China which took place on 12 October 2017.
- The Secretariat then made a presentation on the main elements of the Discussion paper for the thorough revision of the WP6 Instruments and Room Document 1



INFORMAL SUMMARY OF THE WP6 MEETING 21 NOVEMBER 2017

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Item 4: Peer review of Finland

- The Secretariat presented the final draft report of the peer review of Finland's shipbuilding industry. This was followed by opening remarks and questions by the Norwegian delegation.
- The Finnish delegation answered the questions from participants:
 - Tesi already has a non-public exit plan once they get into an involvement.
 - Shipbuilding is only a small part of the maritime sector, marine suppliers are much bigger and supply not only Finland but also the global market.
 - Demand is strong thanks to the strong market for cruise ships
 - Digitalisation can make the manufacturing processes more efficient making the shipbuilding industry internationally competitive in the future.
- The Secretariat will revise the report to take into account the comments at the meeting and the ones to be received in writing.
- Delegates agreed to the declassification of the peer review report, subject to some factual changes to be sent to the Secretariat by **Friday 8 December**.



Item 3. WP6 Instrument review (Discussion)

- These presentations were followed by discussions on the possible roadmap and scope of the Instrument review.
- Several issues were raised by delegates notably on :
 - How to identify market distortions
 - How to involve China in the discussions
 - What fields should be included in the discussion on the Instrument
- Several Members supported the roadmap proposed by the Secretariat but some asked adjustment notably regarding the phasing of the forthcoming steps to be taken.
 - Japan proposed that a workshop on policies impacting the shipbuilding industry and on the scope of the Instrument could be organised back-to-back with the WP6 meeting, to which China would be invited.
- Following comments expressed, the Secretariat mentioned that
 - As it is important not to send different signals to China, the Secretariat could provide a short document that can be used for bilateral talks.
 - It can provide a report of different kinds of support measures for excessive capacity (done in steel, could be adapted for ship)
 - The Secretariat updated the roadmap which is presented in the following slide.



Item 5. Ship recycling

- The Secretariat presented a report on ship recycling and responded to comments received in written from delegates.
- This was followed by a presentation by Mr. Kan MATSUZAKI on trade union's efforts for recycling.
- Some delegates asked all countries to ratify the Hong Kong Convention.
- Following a brief discussion, the WP6 members agreed to declassify the report on ship recycling.
 - The Secretariat invites delegates to send written comments by **Friday 8 December**.
 - The Secretariat will then send a revised version to the WP6 for declassification by written procedure.



WP6 Instrument Review: road map

- Following the discussion at the 21 November WP6 meeting, the Secretariat will prepare a brief document, including:
 - Key elements to be discussed of the prospective Instrument presented in an holistic way, including:
 - The objective (and how it differs, if at all, from existing objectives);
 - The scope of policy measures/settings for consideration; and,
 - The legal nature of the instrument.
 - As requested by China this document will seek to illustrate the necessity, expected output and achievability of the elements to be discussed in the context of the negotiation of the new Instrument.
 - A draft version of this document will be sent to WP6 delegates by 8 December
 - Delegates will be invited to send their comments on this document by 26 January 2018. These comments will be posted on the WP6 Clearspace.
- The Secretariat will then produce a revised version for discussion by the Bureau, taking into account comments received.
- If WP6 Bureau agrees on this document, the Secretariat will contact China to invite it to participate in the negotiation of the new shipbuilding instrument.
- Depending on China's reaction and the guidance of the WP6 Bureau
 - The Secretariat will prepare the corresponding background documents for the 15-16 May 2018 WP6 meeting
 - Following the proposal by Japan, a workshop on policies impacting the shipbuilding industry and on the scope of the Instrument could be organised back-to-back with the WP6 meeting, to which China would be invited.



Item 6. cgt

- The Secretariat informed delegates that the establishment of the informal working group on cgt and capacity measurement has been postponed given the fact that China has not yet answered to the invitation to participate in this group.



Item 9. SSU – Latest developments (1/2)

- As no objections were received, a US delegate attended session 9.
- Representatives from France and Australia attended this session.
- The Secretariat made an introductory presentation showing the role of the WP6 in discussions related to the SSU and the previous discussions which led to the proposals of amendments.
- Norway made an intervention on the most recent meeting of the International Working Group (IWG) indicating that progress was slow and mentioning the nomination of Secretary General.
- Mr. David Drysdale (Secretariat) explained the reasons for the proposed amendment on CIRRs provisions which would allow to keep current rules on that matter in the SSU even if they are modified in the Arrangement.
- The Legal Directorate explained the interlinkages between the SSU and the Arrangement; and added that a clarification on the legal aspects linked to amending the SSU will be available soon.



Item 7. Policy developments (1/5)

- Mr. Przemyslaw KOWALSKI, OECD Trade and Agriculture Directorate, made a presentation on recent work on State-Owned Enterprises, notably the OECD Trade Policy Paper on “Bringing together international trade and investment perspectives on state enterprises”.
- It was followed by presentations by representatives from the OECD Directorate for Financial and Enterprise Affairs:
 - i) Ms. Korin KANE on size and sectoral distribution of State-Owned Enterprises.
 - ii) Ms. Sara SULTAN on continued work in the area of SOEs in the Global Marketplace which involves DAF committees and input from TAD and STI.



Item 9. SSU – Latest developments (2/2)

- The Secretariat then presented the possible amendment allowing to include MOUs in the SSU scope following the request made in April by the WP6 to clarify the meaning of the article 2a of the SSU.
- Norway indicated that it understands the benefits of including CIRRs provisions to facilitate discussions in the meeting of the Participants to the Arrangement and that the amendment on MOUs is under consideration on their side.
- Japan indicated that it has the same position as Norway.
- As some delegates required more time and legal clarification, the Chair asked that the Secretariat to prepare adequate documentation for a new discussion at next WP6.

Item 7. Policy developments (4/5)

- In response to the question by Korea, Germany indicated that in January 2017, it has adopted a comprehensive strategy for the maritime industry (Maritime Agenda 2025). Two of the main areas of activity in this strategy are
 - (1) to strengthen climate, environmental protection for maritime transport sustainability
 - (2) to contribute to the energy transition using maritime technologies.
- Germany is implementing its "Mobility and Fuels Strategy" (MKS). Objectives are to set incentives to create a utility supply infrastructure for the use of alternative ship fuels at national level and for retrofitting/equipping ships with the engine technology that is necessary for this.
- In August 2017 the German Federal Ministry of Transport and Digital Infrastructure published the new funding scheme regarding the usage of LNG or sea-going ships
- The German Government partially funds - by means of direct grants - costs related to exclusive or dual fuel operation of main engines of new builds or existing sea-going ships. Eligibility requires that ships have to be either registered in a German shipping register for sea-going ships, fly an EU flag or operate primarily in European waters.
- Under the scheme, a maximum of 40% of eligible costs may be subsidized, with higher quotas available for small and medium sized companies (SMEs): up to 50% of eligible costs for medium-sized companies (up to 250 employees and 50 million Euro annual turnover), and even up to 60% for small companies (up to 50 employees and 10 million annual turnover).

Item 7. Policy developments (2/5)

- The Secretariat presented the revised proposal to extend the WP6 Inventory coverage to the provision of finance by governments (including SOEs) more widely [].
- Sea Europe supported the inclusion of SOE, given the important role they play
- Korea highlighted that there are many different kinds of state owned entity, Korea would like to include only ECAs for entities to be reported in the Inventory.
- Japan said they
 - have to look into the de minimis criteria more exactly, would like to comment in written in February,
 - understand the Korean concern, but we should take a wide approach as the means of the inventory is to gain transparency, so government support should be included.
- The Secretariat asked for written comments by **end of February 2018**.

Item 7. Policy developments (5/5)

- In complement, the European Commission stated that at the EU level, the TEN-T guidelines and their main financing instrument the Connecting Europe Facility (CEF) serve as main tools contributing to the development of a clean, sustainable and structurally competitive alternative to roads, and building seamless multimodal corridors featuring modern transportation facilities and advanced technologies. The guidelines foresee the completion by year 2030 not only of 9 land based "corridors"
 - Under the TEN-T/CEF framework there are also other funding priorities offering direct financial aid for maritime-based projects, in this respect around EUR 1.5 billion were allocated between 2014 and 2016 for maritime related projects to reinforce the hinterland connections, support alternative energies and environmental facilities (LNG bunkering, waste reception) and upgrade of sea-based transport services integrated in logistics chains. However, CEF grants are limited both in terms of budget and eligibility. This concerns for instance the possibility of supporting green technologies and innovation on vessels operating on EU waters, and in principle within Sulphur Emission Control Areas (SECA).
 - Apart from grants, the CEF, and the new European Fund for Strategic Investments (EFSI) provide new financing opportunities for enhancing investments in the EU, such as project bonds, loan guarantees, possibility of other debt or equity instruments as well as individual investment funds for specific policies. In this context, a dedicated Green Shipping Guarantee Programme (GSGP) was established in 2016 to accelerate investments in sustainable maritime technologies and to help the EU industry in its transition towards greener and more competitive shipping. The Program is addressed to ship owners (in principle of EU origin) for new vessels that incorporate green technologies irrespective of the location of the shipbuilding yard (within or outside EU). Furthermore, in 2017 the Commission launched a so-called "blending call" - as a mix of CEF (grants) and EFSI (financial instruments) approaches.
- On the second question from Korea about manpower and capacity of cruise ships, the EC added that orders are placed much more in advance today causing the present big order book, which was not the case during past years. However, order volumes for cruise ships did not reach the levels that would exceed existing capacity. There is increase in orders for coming years as compared with 2017 deliveries, however not the same in recent years had low work load for their existing work force, therefore yards are not expected to have a workload per year that would require major adjustments. Work force at yards is thus also not expected to heavily increase in the near future. The European industry is already, thanks to some investments in production facilities, and to some additional capacity involved in this activity, managing with the increase in cruise ships deliveries, and is already delivering presently about 15 big cruise ships (or even 20) per year, for about 1,1 to 1,6 million TMS. And we see that the level of deliveries above 2016 is not as yet known, expected to exceed the present levels. With also some of deliveries coming significantly from China after 2020. Significant production technology advances, driven amongst others by digitalisation and automation processes, are also important factor allowing, by way to efficiently cope with increased cruise ship orders volumes

Item 7. Policy developments (3/5)

- Korea replied to questions received from Japan about recent policy developments.
 - Korea presented some financial indicators regarding DSME in a document distributed to delegates.
 - Korea indicated that the cash injection to DSME was based on creditors' rationale; otherwise, creditors would have made larger losses and the company would have gone bankrupt;
 - Korea indicated that DSME experienced a temporary liquidity crisis.
 - Korea then talked about KSMT, a programme to support shipping companies, and with no constraint on the origin of the company. Korea added that the maritime promotion operation excludes support for the shipbuilding industry.
- Japan made a presentation in response to questions received from Korea (please see slides from Japan).



Item 10. Discussion of 2018 outputs and PWB 2019-20 (2/2)

- Korea indicated its interest for a report on how to tackle current overcapacity in each country and how to regulate the private sector's increase in capacity.
- EU mentioned that the initial road map is more or less fixed, but thereafter we might need more flexibility
- Japan said that it was concerned about the resources of the Secretariat. If China joins, it would mean more work and we will need to streamline items, prioritize and focus on items related to the instrument review.
- SEA Europe said that the top priority is the instrument review and supported streamlining; It supported the addition of project on cost factors and on price developments.



Item 8. Market developments

- The Secretariat presented the shipbuilding market report
- It was followed by presentations by
 - Ms. Jenny BRAAT from SEA Europe on recent developments and prospects for the shipbuilding market.
 - Mr. Hiroshi (Dave) IWAMOTO from the Shipbuilders' Association of Japan on the analysis on how distorted market would affect sustainable growth of shipbuilding industry.



Item 11. Bureau designation

- The WP6 designated its Vice-Chairs for 2018:
 - Mr. PARK (Korea – Vice-Chair)
 - Mr. MAEDA (Japan – Vice-Chair)
 - Mr. PELTOLA (Finland – Vice-Chair)
- Given the new position of the current Chair in 2018, the Secretariat invites candidates to be WP6 Chair to send their CVs by **18 December**.



Item 10. Discussion of 2018 outputs and PWB 2019-20 (1/2)

- The Secretariat made a presentation on the WP6's PWB work items to be conducted next year as well as the items to be discussed at the next WP6 meeting (please see presentation on this item for details).
- The Secretariat also asked delegates' views regarding the items to be included in the next PWB.
- Japan proposed that the next Peer Review will cover fast growing non WP6 shipbuilding economies including China and the Philippines.
- The Secretariat mentioned that making a review of China and potentially other countries would be a heavy task, and proposed to extend the time to conduct it beyond one year. It was also highlighted that peer review normally means cooperation of the respective country, but we don't know if China is actually interested.
- The Chair concluded on this point that the Secretariat will assess the interest of China for such a report.



Item 14. Mandate

- The Secretariat presented the timeline and some issues to be discussed in the context of the renewal of IEG and WP6 Mandates.
- Denmark asked if there were overlaps with the IMO's work regarding environmental issues.
- The Secretariat answered that it will be careful on this point when drafting the revised mandate.



Item 12. Other business

- There was no other business



ITEM 3: SUMMARY OF PREVIOUS NEGOTIATIONS AND CHANGES IN THE SHIPBUILDING INDUSTRY

Document: C/WP6(2017)18

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division.
Mr. Laurent DANIEL, Laurent.DANIEL@oecd.org
Mr. Kei ITO, Kei.ITO@oecd.org
Mr. Christian STEIDL, Christian.STEIDL@oecd.org





1994 AGREEMENT

24-Nov-2017

4

Introduction

- Request at the 124th meeting to provide a summary of negotiations and market changes
- Previous attempts to conclude a binding shipbuilding agreement had been unsuccessful
- Background for possible future efforts towards a SBA

24-Nov-2017

2



Background

- Attempt to establish legally binding measures for shipbuilding
- Countries representing 80% of shipbuilding capacity participated in negotiations
- Hoped it could set a standard for other shipbuilding economies

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5



Outline

- 1994 Agreement
- Negotiations 2002 -2005
- Discussion on mandate 2010
- Market changes

24-Nov-2017

3



Entry into force clause

- Successfully negotiated, but not entered into force due to problems in ratification
- Followed by 8 years break...

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Provisions

- Wide range of direct/indirect support prohibited
- Exceptions: home credits, export credits, R&D subsidies, help for displaced workers
- Additional exception: Restructuring aid and “Jones Act”

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NEGOTIATIONS 2002 - 2005

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Injurious Pricing Code

- Resembling GATT regulation
- After complaint is received, investigation on the pricing of the vessel (compared to like vessel or production+profit margin) and injury of complainant’s domestic industry (sales, wages etc.)
- Consequence:
 - Injurious pricing charge or void sale
 - In case of non-compliance, denial of on/offloading practices for ships from that shipbuilder

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Differential Treatment and Eligibility Criteria

- Agreement to include differential treatment
- Eligibility:
 - <\$US 3 000 GDP/capita, until 31 Dec 2013
- Proposal of rights:
 - Subsidies for modernisation and investment would be allowed, subject to notification

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Background

- Industry hearing in 2002 showed substantial support for new negotiations, more comprehensive than 1994 Agreement
- Mandate to convene a special negotiation group with the goal “to bring about normal competitive conditions in the world commercial shipbuilding and repair industries”

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10



Subsidies

- Main disagreement about WTO+ approach
- Eventual split into three categories:
 - Prohibited subsidies: Production of ships [shipyard operation, investment and modernisation]
 - Actionable subsidies (similar to GATT 1994: injury, nullification and impairment, serious prejudice)
 - Non-actionable subsidies: closure aid [R&D, privatisation]

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Coverage and entry into force

- Division between threshold of 100 and 1000 gt
- No agreement whether to include ship repair
- Different proposals for entry into force, but not as strict as 1994 Agreement

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Pricing

- Proposal:
 - regular submissions of contract prices → Secretariat would provide price trends
 - Ships sold significantly below that trend could be deemed as price undercutting
- Disagreement: whether to include sanction mechanisms such as a panel with investigating power
→ negotiations paused

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10



Dispute settlement and remedies

- Own dispute settlement body within the agreement, until it was integrated into the WTO framework
- Remedies:
 - Prohibited subsidy: withdrawal
 - Actionable subsidy: withdrawal or removal of adverse effects

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Summary of agreements and disagreements

- Solving many issues as an overall package
- Comparing initial positions with eventual proposal shows significant steps towards compromise
- Lesson learnt: Without agreement on pricing issue, negotiations are unlikely to be successful

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Export and home credits

- Export credits conforming to the “Sector Understanding on Export Credits for Ships” allowed,
- Arrangements to account for parties not participant in SSU
- No agreement on home credits

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RECENT MARKET DEVELOPMENTS AND PROSPECTS FOR FUTURE NEGOTIATIONS

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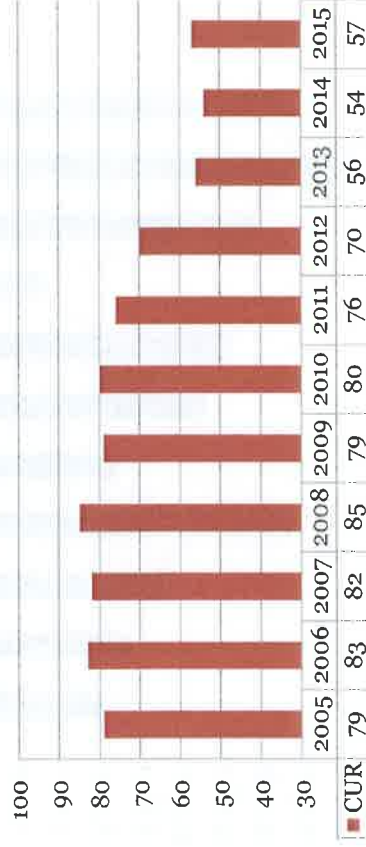
DISCUSSION ON MANDATE 2010

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Decline of Capacity Utilisation Rates



Source: OECD (2016) Imbalances in the Shipbuilding Industry and Assessment of Policy Responses [C/WP6(2016)6/FINAL]

- All major shipbuilding economies affected

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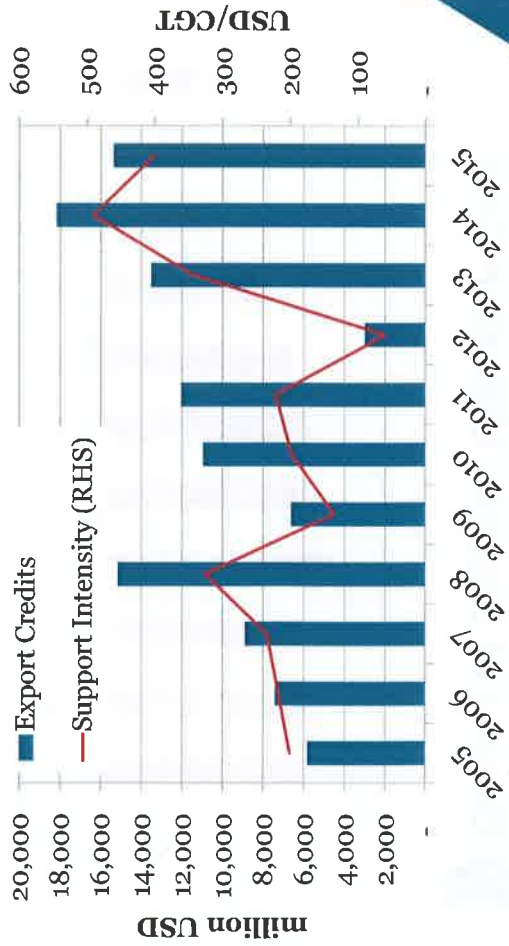
Discussion on Mandate 2010

- General agreement to continue negotiations
- Different suggestions for mandate from EU and Korea + proposal by Secretariat
- No agreement on any version of mandate → negotiations terminated in Nov. 2010

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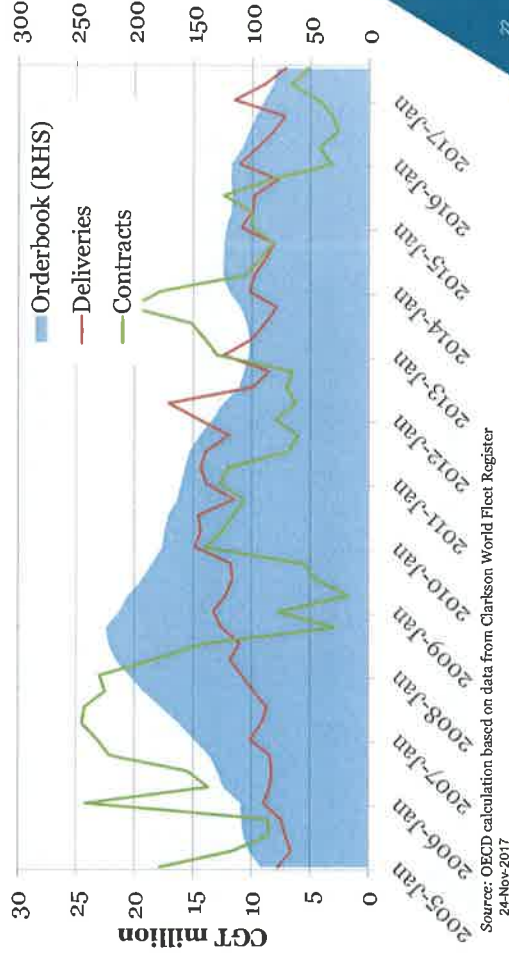
19

Rise in Support Intensity (total cgt)



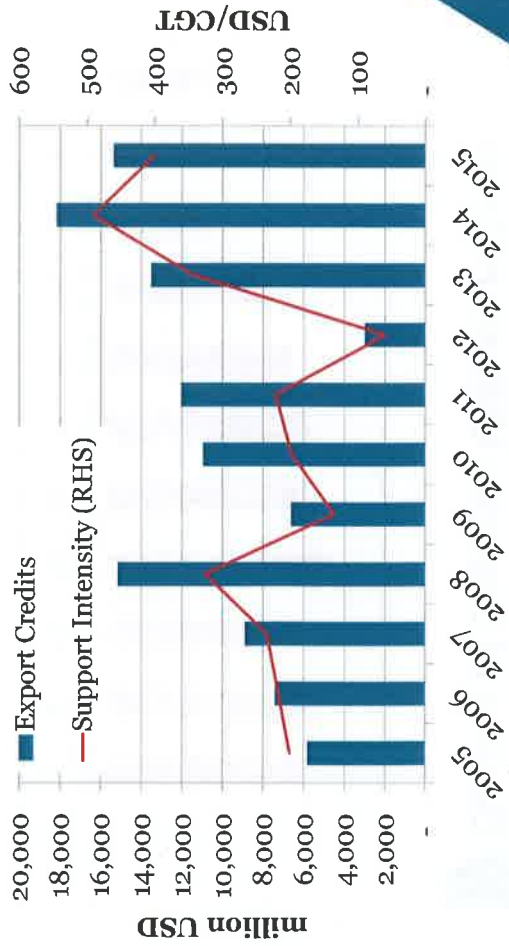
Source: OECD representation, data for cgt from Clarkson World Fleet Register, data for export credits from "Review of the Arrangement for Official Export Credit Support Related to the Shipbuilding Industry (2005-2015)" [C/WP6(2016)9]

Decline in order book



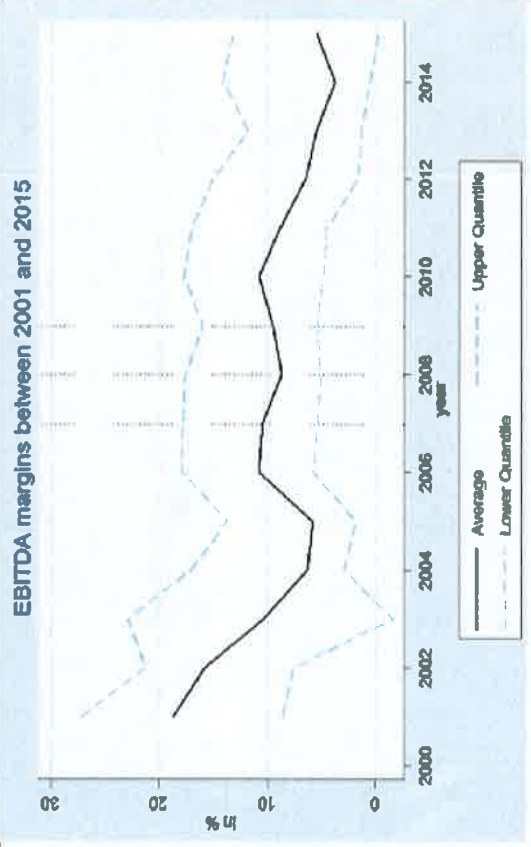
Source: OECD calculation based on data from Clarkson World Fleet Register
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Rise in Support Intensity (exported cgt)



Source: OECD representation, data for cgt from Clarkson World Fleet Register, data for export credits from "Review of the Arrangement for Official Export Credit Support Related to the Shipbuilding Industry (2005-2015)" [C/WP6(2016)9]

Decline in EBITDA margins



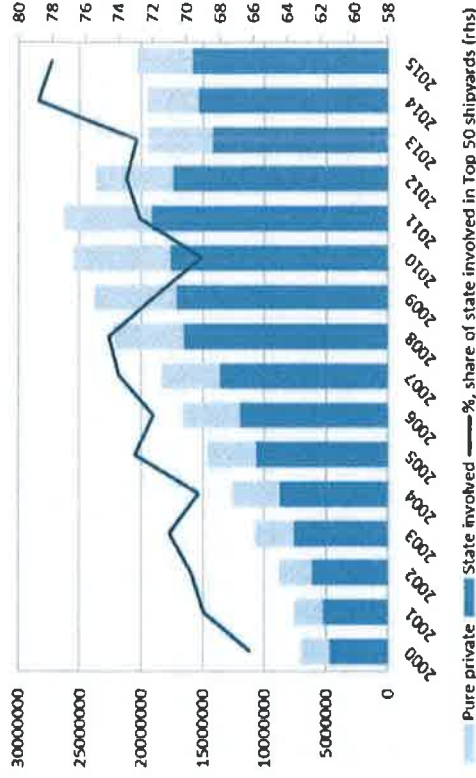
Source: OECD (2016) Imbalances in the Shipbuilding Industry and Assessment of Policy Responses [C/WP6(2016)/FINAL]
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Thank you!



Completion volumes of top 50 shipyards between 2000 and 2015, cgt



Note: Identification of state involvements in companies' share was based on the Clarkson WFR (accessed on 18 July 2017) and OECD peer review reports taken place 2012-2016. Shipyards falls under state-involved is their shares, even in minority (>1%), have been owned by government or any other public bodies, and otherwise falls under pure private.

Source: Based on OECD calculations from peer reviews (Japan and Korea) and Clarkson WFR for China. Fincantieri (Italy) is the only firm in top 50 outside these three countries.



Recent Market Developments

- To summarize:
 - CUR down
 - Orders down
 - EBITDA down
 - Export credits up
 - State involvement up
- Market situation today more severe than at the time of previous negotiations
- At the same time indication of increasing government support

ITEM 3 III) THE DISCUSSION PAPER FOR THE THOROUGH REVISION OF THE WP6 INSTRUMENTS

Document: C/WP6(2017)13 and Room document 1

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division,
 Mr. Laurent DANIEL, LaurentC.DANIEL@oecd.org
 Mr. Kei ITO, Kei.ITO@oecd.org





Comments from delegates: Objectives

- A majority of delegates prefer to include the existing objectives which are to remove “Obstacles” to normal competitive conditions and to address excess capacity and structural adjustment in the shipbuilding industry.
- A possible process for the elaboration of the new Instrument would be to start on the premise that the existing objectives would remain in the new Instrument. This does not necessarily preclude additional objectives which would be expected to be mutually relevant.

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Background

- The WP6 agreed to conduct a thorough revision of the 1983 instruments at its 123rd session
- The Secretariat invited delegates to send their comments to the questionnaire presented at the 124th session
- The questionnaire includes questions on;
 - Legal nature
 - Objectives
 - Scope of “obstacles” to normal competitive condition
 - Mechanisms to ensure transparency
 - Excess capacity
 - Resources

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Comments from delegates: Scope of “obstacles”

- Following written comments received from WP6 delegates, the scope of the new Instrument may include the following items:
 1. Subsidy disciplines
 2. Pricing disciplines
 3. Policies addressing excess capacity
 4. Local contents requirement
 5. Intellectual property rights and technology transfer
 6. Level playing field among enterprises of all types of ownership
 7. Public procurement
 8. Mergers and acquisitions and competition policy
 9. Bankruptcy procedures
 10. Exchange rate policy
- The Secretariat has prepared an ANNEX II of C/WP6(2017)13 in order to facilitate discussion on the scope

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Comments from delegates: Legal nature

- A majority of delegates indicated their preference for a legally-binding Instrument subject to the participation in the negotiations of major shipbuilding economies including China.
- By contrast, Korea and Romania indicated their preference for a non legally-binding Instrument.
 - Korea mentioned that a legally-binding Instrument might decrease the probability of participation by non-OECD countries.
 - Romania indicated its preference for a non-legally binding Instrument regardless of China’s participation.

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Comments from delegates: Resources

- Some delegates highlighted that they may not be able to commit additional funding for an Ad hoc Negotiating Group for a Shipbuilding Instrument (ANG) which was proposed by the Secretariat at the 124th session of the WP6.
- Some delegates stressed that it is not possible to make a decision whether to establish an ANG before having more information notably on its membership as well as resources implication.

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Summary of comments by delegates

- China's participation is critical to decide legal nature of the new Instrument.
- MIIT's requests information on the necessity, expected output and achievability of the negotiation.
- Scoping exercise may be necessary to identify the possible items which can be included in the discussion on the new Instrument.

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Comments from delegates: Transparency

- Most delegates expressed their wishes to develop mechanisms increasing transparency on government measures.
- Some delegates stressed that the WP6 Inventory remains an essential activity to increase transparency.
- Some delegates highlighted the importance of developing sanction mechanisms to prohibit harmful subsidies.

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Comments from delegates: Excess capacity

- Most delegates expressed their wishes to include elements described in the report on *Imbalances in the shipbuilding industry and assessment of policy responses* [[C/WP6\(2016\)6/FINAL](#)].
- Related to subsidy disciplines, some delegates highlighted that structural change supports should be allowed in order to facilitate reducing capacities.
- Some delegates highlighted that policies limiting capacity expansion should be encouraged.

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ANNEX II

Scoping exercise

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Scope of possible issues which can be included in the discussion on the new Instrument

- The ANNEX II summarises the **ongoing cross sectoral discussions** in other international forum and examines if the following items mentioned by delegates are **specific to the shipbuilding sector**.
 1. **Subsidy disciplines**
 2. **Pricing disciplines**
 3. Policies addressing excess capacity
 4. **Local contents requirement**
 5. **Intellectual property rights and technology transfer**
 6. Level playing field among enterprises of all types of ownership
 7. Public procurement
 8. Mergers and acquisitions and competition policy
 9. Bankruptcy procedures
 10. Exchange rate policy

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Efforts by the Secretariat to engage China in the Instrument review process

- Letter of invitation to MIIT's DG Equipment Industry Department sent on 2 August by STI Director
 - Regular contacts with MIIT's Shipbuilding Division by email and phone
- Bilateral meetings btw Secretariat and MIIT's SB Division scheduled in September and October 2017 but which had to be postponed for various reasons.

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Proposed Road map for the Instrument review process

- 21 November 2017 (at the 125th session of the WP6); The WP6 discusses the scope of possible issues which can be included in the discussion on the new shipbuilding Instrument. (see ANNEX II)
- Early 2018; The Secretariat [and bureau members] will visit China and have a meeting with MIIT (and relevant stakeholders such as CANSI) in Beijing. (see ANNEX III and IV)
- 15-16 May 2018 WP6 meeting; Discussion at the 126th session of the WP6

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Legal deficiencies related to Local Content Requirements (LCR)

- Under Article III:4 of GATT and ANNEX of TRIMs, Local Content Requirements are prohibited;
 - Article 1 (a) ANNEX of TRIMs; The purchase or use by an enterprise of products of domestic origin or from any domestic source, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production
- Under paragraph 3 (a) of GATT 1994, Jones Act in the US are exempted from the application of Article III and XI. This provision is under the reviews in accordance with paragraph 3 (c) of GATT 1994.
 - US Jones Act (1920): Vessels qualified to engage in US coastwise trade must be built in the US, owned by US entity, equipped by 75% with US crew and US flagged (i.e. cabotage).

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Legal deficiencies related to Intellectual property

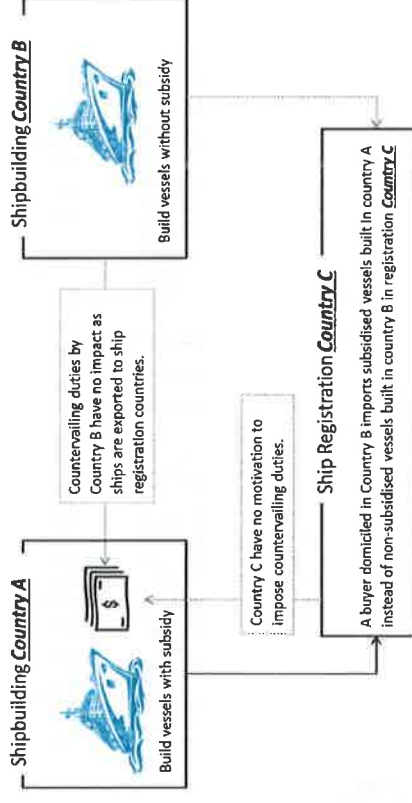
- The World Intellectual Property Organisation (WIPO) administers 24 international treaties, among those the Paris Convention and the Berne Convention.
- Under national legislations in accordance with Paris Convention, commercial use, sells, production of counterfeit products can be fined. Ocean-going ships do not fall under the same regulations in accordance with Article 5th of the Paris Convention:
 - *"In any country of the Union the following shall not be considered as infringements of the rights of a patentee:*
 - *(i) the use on board vessels of other countries of the Union of devices forming the subject of his patent in the body of the vessel, in the machinery, tackle, gear and other accessories, when such vessels temporarily or accidentally enter the waters of the said country, provided that such devices are used there exclusively for the needs of the vessel;...*"
- This exception is included because if vessels had to conform to legislation in each national jurisdiction they enter throughout their lifetime, this would significantly inhibit international trade.

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Common legal deficiencies in applying WTO framework to the ship sector

- The specific characteristics of the shipbuilding industry complicate the application of the provisions of the WTO rules



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Legal deficiencies related to Subsidy disciplines and pricing disciplines

- A global single market makes the application of ASCM and Anti-dumping Agreement more complicated
 - The ASCM defines the prohibited subsidies as subsidies contingent upon export performance, and hence, all subsidies to shipyards should have been recognised as prohibited subsidies within the meaning of the ASCM;
 - Less possibility to identify dumping by comparing the export price with domestic price of a similar product, as there is no domestic price for international shipping.

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ANNEX IV

- The MIIT indicated that it will not be able to decide whether to participate to the negotiations unless three key elements are sufficiently clearly assessed
 - Necessity;
 - Expected output;
 - Achievability;
- These key elements are to be prepared for each item after the scoping exercise by the Secretariat (See ANNEX IV for draft)

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Room document 1 Q&A summary

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Other Issues

- Other issues raised by delegates are neither specific to nor prominent in the ship sector, and hence, has been discussed in cross sectoral context.
 - level playing field among enterprises of all types of ownership
 - public procurement
 - mergers and acquisitions and competition policy
 - bankruptcy procedures
 - Exchange rate policies
- However, some of these issues such as the level playing field among enterprises of all types of ownership and bankruptcy procedures may fall within the scope of subsidy disciplines.

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ANNEX III and IV

Possible scoping paper

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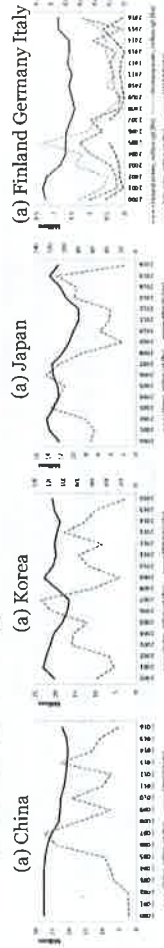
Example 3 & 4:

Example 3 Differential tax treatment

- The questioned country implement differential tax treatment which gives possibilities for companies to choose:
 - Corporate income tax (CIT); or
 - Stamp duty

Example 4: Exchange rate policy

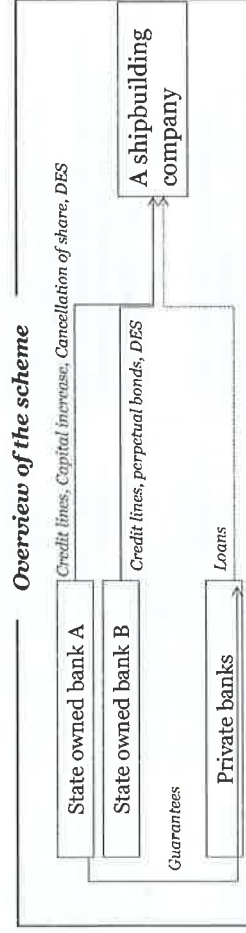
- A delegate asked to what extent the exchange rate policy could affect shipbuilding activities



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Example 5: Financing to a shipyard by government-owned banks



Discussion points

- Whether there exist government interventions? → WTO panel case (DS273)
 - Whether the financing by the government owned banks is commercially viable?
 - Volatility of *future cash flow* ;
 - Government intervene to the future cash flow;
 - Unclear methodology to calculate future cash flow.
- Similar challenge exists in Base Erosion and Profit Shifting (BEPS) (i.e. Difficult to evaluate values of Intangibles due to uncertain future cash flows)

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Summary of issues revealed during Q&A

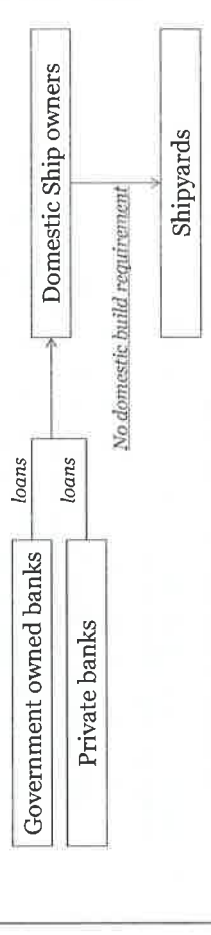
No.	Type of policies	Issues revealed during Q&A sessions
Example 1	Financing to shipowners by a bank owned by the government	(i) Existence of domestic build requirement
Example 2	Tax lease schemes	(i) Existence of domestic build requirement
Example 3	Differential tax treatment for shipbuilding industry	(ii) Existence of specificity
Example 4	Exchange rate policy	(ii) Existence of specificity
Example 5	Financing to a shipyard by a bank owned by the government	(iii) Existence of government interventions (iv) Commercial viability of financing to a shipyard by a bank owned by the government

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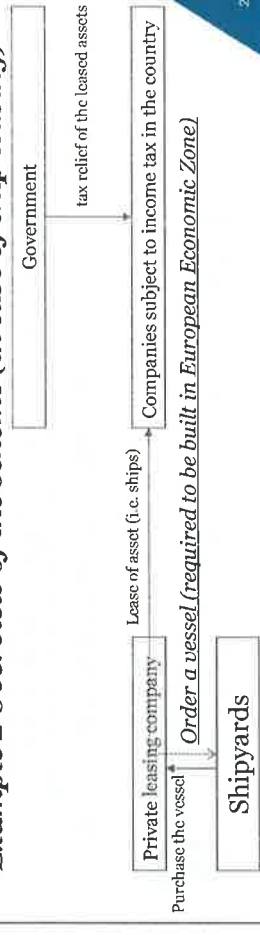
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Example 1 & 2

Example 1: Overview of the scheme



Example 2 Overview of the scheme (in case of ship leasing)



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Example 5: Financing to a shipyard by government-owned banks

In the course of the debate, different views were expressed

	Arguments by the country concerned:	Arguments by the other countries:
1) whether there exist government interventions	<p>The financing should not be considered as government supports as these public banks provided financing in order to <u>maximise their paybacks</u> as they are the largest shareholders and creditors of the shipyard.</p>	<p>The financing should be considered as a government intervention as long as it is provided by banks which are 100% owned by the government and the rescue plan is announced by the government.</p>
2) whether the financing by the government owned banks is commercially viable	<p>The commercial viability of these operations can be demonstrated by comparing the scenarios of "going-concern" with "liquidation". More concretely, in these scenarios, a payback of 100% is receivable in the "going-concern" case, while payback of 26% is expected in the "liquidation" case, and therefore, the decision made by these public banks are considered to be reasonable.</p>	<p>The "liquidation value" is likely to always be smaller than the "going concern value" as long as the financial support continues to be provided. If a government-owned bank provides guarantees to private institutional bond holders in order to obtain agreement on the restructuring plan, the decision is based on guarantee supports by the government-owned bank and not private initiatives.</p>

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Implications for the WP6 Instrument review

- **Issues relevant to the scoping exercise;**
 - Should local content requirements (i.e. domestic build requirement) be included in the scope of the discussion in the context of the Instrument review process?
 - Should cross-sectoral policies such as corporate income tax or exchange rate policy be brought up for discussion on the Instrument review?
- **Issues which can be considered in the context of the substantial discussion**
 - Definitions of "government" or "government intervention".
 - Methodology to identify "Commercial viability of financing to a shipyard by the government or government-owned entity".
 - How the Instrument should consider government interventions aiming to facilitate restructuring of the industry and/or specific companies?
 - In the case of financial interventions by a government or a public entity, which information should be shared with other participants to the Instruments to assess these interventions?

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Example 5: Financing to a shipyard by government-owned banks

(iii) Existence of government interventions

- No common recognition on "government intervention" among the WP6 members, but panel discussion regarding "by a public body" in WTO is useful.
- According to the WTO report of the panel DS273,
 1. an entity will constitute a "public body" if it is controlled by the government (or other public bodies).
 2. where a public body participates in a loan agreed by a creditors' council, the part of the loan attributable to the public body constitutes an individual financial contribution by that public body under Article 1.1(a) of the SCM Agreement.

→ Definition of the government can be discussed in the context of the instrument review (in later stage)

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Thank you.

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Example 5: Financing to a shipyard by government-owned banks

Discussion point (iv) Commercial viability of finance to a shipyard by government-owned banks

- How to screen Hard-To-Value Enterprises
 - For due diligence based on valuation techniques
 - How to examine the accuracy of expected future cash flow and discount rate
 - Ex) Is it applicable to have a threshold for difference between the financial projections and actual outcomes more than 20% ?
 - Ex) Could it be examined based on detailed information for the ex ante projections used at the time of the financing transaction?

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Example 5: Financing to a shipyard by government-owned banks

Discussion point (iv) Commercial viability of finance to a shipyard by government-owned banks

- Due diligence based on future cash flows
- Valuation techniques such as discounted cash flow (DCF) methods are one of the approaches widely used for valuing a project, a company, or an asset.

$$V = CF_0 + \sum_{k=1}^n \left(\frac{CF_k}{(1+r)^k} \right)$$

Where CF_k is the cash flow at time k , r the discount rate, and t the number of periods the asset/company generates cash flows

- Challenges;
 - Volatility of future cash flow and discount rate;
 - Government intervene to the uncertain part of valuation techniques (i.e. future cash flow and discount rate);
 - Information asymmetry among delegates;
 - Difficult to evaluate whether the financing decision is made reasonably at the time of the transaction

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ITEM 4: PEER REVIEW OF THE FINNISH MARINE & SHIPBUILDING INDUSTRY

Document: CWP6(2017)10

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division

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Mr. Michela RIMINI, Michela.RIMINI@oecd.org

Mr. Christian STEIDL, Christian.STEIDL@oecd.org

Example 5: Financing to a shipyard by government-owned banks

A similar challenge appeared in computing values of intangibles in the Base Erosion and Profit Shifting (BEPS) project which was concluded in 2016.

- *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (hereafter "the BEPS Guidelines")* published in July 2017 defines "Hard-To-Value Intangibles (HTVI)" and includes some paragraphs which allow administrators to apply an **ex post evidence approach**.
 - (i) **no reliable comparables exist**, and
 - (ii) at the time the transactions was entered into, the **projections of future cash flows or income** expected to be derived from the transferred intangible, or the assumptions used in valuing the intangible are **highly uncertain**
- Exception of Hard-To-Value Intangibles (HTVI)
 - i) The taxpayer **provides**:
 - 1. Details of the **ex ante projections** used at the time of the transfer to determine the pricing of the intangible, and the assumptions used in valuing the intangible, and the probability of occurrence; and,
 - 2. **Reliable evidence** that any significant difference between the financial projections and actual outcomes is due to: a) unforeseeable developments or events occurring after the determination of the price that could not have been anticipated by the associated enterprises at the time of the transaction; or b) the playing out of probability of occurrence of foreseeable outcomes, and that these probabilities were not significantly overestimated or underestimated at the time of the transaction;
 - ii) The transfer of the HTVI is covered by a bilateral or multilateral advance pricing arrangement in effect for the period in question between the countries of the transferee and the transferor.
 - iii) Any significant difference between the financial projections and actual outcomes mentioned in 1)2 above does not have the effect of reducing or increasing the compensation for the HTVI by more than **20% of the** compensation determined at the time of the transaction.
 - iv) A commercialization period of five years has passed following the year in which the HTVI first generated unrelated party revenues for the transferee and in which commercialization period any significant difference between the financial projections and actual outcomes mentioned in 1)2 above was not greater than 20% of the projections for that period.⁸

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Outline

1. **Features of Finland's Marine Industry**
 - Industry Profile and Structure
 - Financial Performance and Employment & Education
 - Technology and R&D
 - Industry Trends & Challenges
2. **Government Policies**
3. **Issues for Discussion**

24-Nov-2017

4



Introduction (1/2)

- The Secretariat would like to thank very much the Finnish authorities for the great support provided for this Peer Review.
- The mission took place in Helsinki and Turku with meetings with:
 - Ministry of Economic Affairs and Employment of Finland (MEAE)
 - Ministry of Transport and Communications
 - Tesi
 - Tekes
 - Finnvera
 - Aker Arctic Technology Inc
 - Wärtsilä Corp. Marine Solutions
 - ABB Oy
 - Rauma Marine Construction Oy
 - Rolls-Royce Turku
 - Visit of Meyer Turku Oy

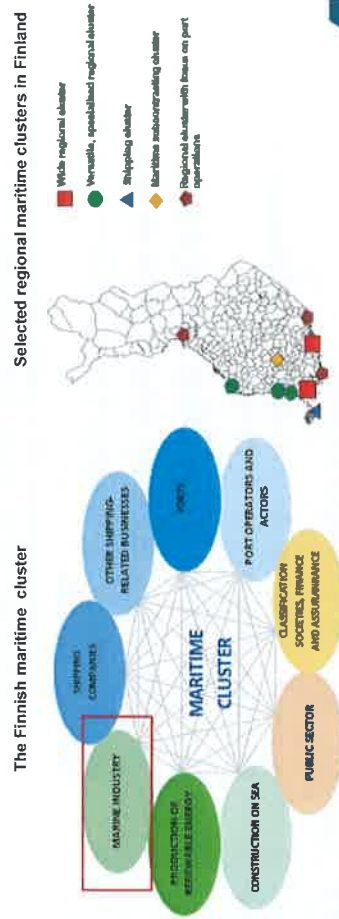
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Industry Profile (1/3)

- Marine industry (incl. shipbuilding) as part of wider maritime cluster accounts for ~2% of GDP in 2015.*



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Introduction (2/2)

- After the WP6 meeting the report will be reviewed accordingly taking also into account today's discussion and comments.
- The report has benefited extensively from the inputs from Finland, but the OECD Secretariat takes final responsibility for all content presented today.

24-Nov-2017

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*Maritime cluster's turnover in 2015 amounted to EUR 1.3 bn which accounts for ~3.3% of total Finnish output (presentation by Finnish maritime industries). The marine industry's turnover in the same year amounted to ~EUR 8 bn, and makes up therefore ~5% of total Finnish output.

Structure

- **Consolidation in shipbuilding:**
 - 5 major shipyards since 2010: Meyer Turku, RMC (under STX), Arctech, Technip Offshore, Uudenkaupungin Työvene.
 - Establishment of RMC after closure of STX in 2014: land and sea area ownership by city of Rauma (~EUR 19 mio) whereas IP rights remained with STX (subsequently sold to Meyer family).
 - 2 specialized repair yards: Turku Repair Yard Ltd Naantali and Oy Western shipyard
 - Majority of yards is partly or fully owned by foreign interest (e.g. Meyer Turku by German Meyer family, Arctech by Russian United Shipbuilding Corporation).

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1.Features of Finland's Marine Industry

Industry Profile (2/3)

- Marine industry makes up ~EUR 8 bn turnover (60% of total cluster revenues) in 2015 and encompasses ~870 firms.*
- Shipbuilding (part of marine industry) accounts for ~EUR 1 bn turnover (~8% of cluster revenues).
- 17th largest shipbuilder in 2016
 - 122 000 compensated gross tons= 0.34% of world total
- Importance of marine supply industry: equipment, systems etc.. representing ~80% of final production value.
- Industry specialization also in conversion and repair works.
- Focus on green innovations (e.g. new generation dual-fuel engines with LNG, lightweight ships, energy-efficient propulsion systems)

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1.Features of Finland's Marine Industry

*Within the maritime cluster, the marine industry includes marine equipment manufacturers, designers, software and system providers, etc. The cluster also includes ship repair yards and other related services. The marine industry is a small sector in terms of employment - only 1% of the population, although the industry employs ~3 000 firms operating in the cluster. However, the remaining firms are mainly very small or individual entrepreneurs.

Financials and Employment & Education

- **Financial Performance**
 - Turnover recovered to EUR 8 bn in 2015 (lowest in 2010 with EUR 6.5 bn).
 - Marine industry with highest turnover in the maritime cluster but lowest gross margin with ~7% since 2009.
- **Employment & Education**
 - In 2015, marine industry employs ~28 800 workers (i.e. ~2% of country's total workforce and 60% of maritime cluster). Shipbuilding with ~2 800 workers (~10% of marine industry).
 - Importance of ties with scientific institutions, universities (e.g. Marine Technology studies at Aalto university) and suppliers.
 - Challenge to attract highly skilled engineers and technicians (e.g. due to economic volatility of maritime sector).

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1.Features of Finland's Marine Industry

Industry Profile (3/3)

- Highly competitive in specialized vessel production:
 - "Centre of Arctic Expertise": 70% of global ice breaker production
 - 3rd largest cruise ship producer next to Italy, Germany & France.
 - As of April 2017, Finland holds 9 (Meyer Turku) out of 76 global cruise ship orders in its order book (~12% of global cruise ship orders).
- Operating in a growth segment: cruise ship market expected to grow by 4.3% p.a. until 2025.

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1.Features of Finland's Marine Industry

Industry trends & challenges (2/2)

Industry challenges

- High cost country (i.e. 10% higher hourly labor costs* than in the EU-28) with the need to invest in cost efficiency using automation, robotization, digitalization.
- Need for trained workforce due to expected economic growth requires more investments in educational programs.
- High exposure to a high-value added niche market for cruise and passenger ships as well as ice-going vessels:
 - Rising international competition, such as through China's government strategy "Made in China 2025" and the country's plan to enter the cruise ship market.

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*Average labour costs per hour in Finland for the whole economy (excluding agriculture and public administration)

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Outline

1. Features of Finland's Marine Industry

- Industry Profile and Structure
- Financial Performance and Employment & Education
- Technology and R&D
- Industry Trends & Challenges

2. Government Policies

3. Issues for Discussion

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Research and Development

- International competitiveness thanks to its innovation strength
- 24 firms in the marine cluster applied for 102 patents in the USA (2000-2014)
- 72 firms applied 231 patents in ship related category at the EPO* (2000-2016)
- Majority of marine equipment supply companies as applicants (e.g. Wärtsilä, Evac, ABB, Aker Arctic Technology etc.) but also Meyer Turku yard and Mobimar.
- Patent categories: passenger rooms (27%), cargo handling (15%), transmission systems (14%), engines (9%), combating oil damage (8%).

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*EPO-European Patent Office. ship related category includes the international patent codes: B63B (ships or other waterborne vessels, equipment for shipping), B63C (launching, hoisting-out, or dry-docking of vessels, floating in water, equipment for sailing or working under water, means for shipping or searching for underwater objects (floating nets, floating stairways, or the like)), B63G (rafts or other inflatable or collapsible arrangements on vessels; rafts; rafts; rafts), B63H (marine propulsion or steering), B63J (fixtures on vessels)

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Industry trends & challenges (1/2)

Maritime environmental regulations

- Trafti (2013) estimated investment costs arising from new maritime regulations (i.e. amendments and revisions of MARPOL Annex IV, V, VI, Chapter 4 Annex VI, Ballast Water Convention and EU Sulphur Directive).
- For existing mid-size bulk carriers estimated investment costs may amount to ~EUR 4.5 mio and for newbuildings with HFO ~EUR 3.2 mio (~EUR 1.3 mio for MGO).
- For existing passenger car ferries, estimates amount to ~EUR 9 mio for HFO vessels (~EUR 0.5 mio for MGO). Newbuildings' investment cost may amount to ~EUR 7 mio for HFO (~EUR 2.2 mio for MGO).

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HFO: heavy fuel oil, MGO: marine gas oil
IMO: International Maritime Organization
MARPOL Annex IV (treatment of sewage), Annex V (prevention of air pollution from ships), Revised MARPOL Annex VI (Bulk carrier cargo residues and food waste), Revised MARPOL Annex VI (prevention of air pollution from shipping), standards for SOx and NOx emissions) and the new EU Sulphur Directive. (New chapter 4 to MARPOL Annex VI (energy efficiency of ships).

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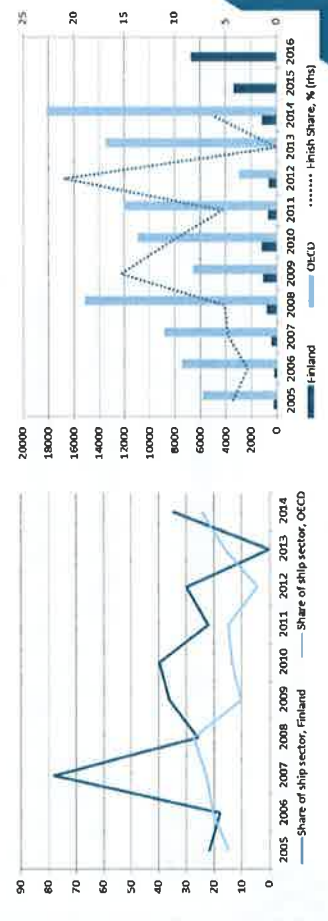


Overview of export credits provided by Norwegian ECAs

- Export Credit Agencies;
 - Finnvera (Guarantee provider)
 - Finnish Export Credit belonging to the Finnvera group (Loan provider)

2. Government policies

(a) Share of ship in total export transactions, % (b) Volume of export credits for ships, mn USD



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Strategy for maritime sector

Maritime Transport Strategy for Finland 2014-2022

- Launched in September 2014
- Inclusive strategy for maritime industries highlighting:
 - Enhancing maritime cluster cooperation
 - Improving financing opportunities for vessel investments
 - Developing alternative fuel solutions
 - Seeking international regulation through IMO
 - Strengthening bilateral international cooperation and public and private partnerships



Maritime Transport Strategy for Finland 2014-2022



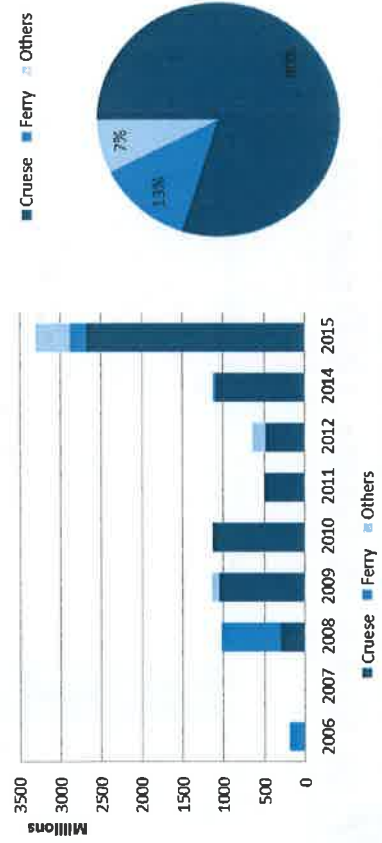
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Volume of export credits for ships by segments in millions of USD

(a) Volume of export credit for ships by year of finance commitment (b) Segments share (2006-2016)



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Support measures

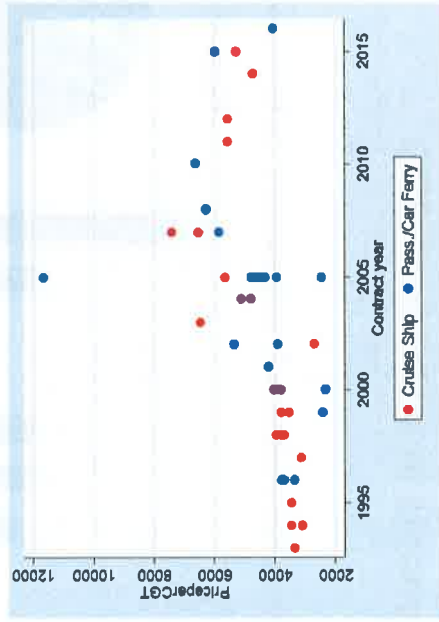
Measures	Authority/agency	Start year	End year
Export and domestic credit - pre-delivery financing	Finnvera		On going
Export and domestic credit - post-delivery financing	FEC loans guaranteed by Finnvera		On going
Equity investment to the shipyards	Finnish Industry Investment	2015	On going
Innovation aid	The Ministry of Economic Affairs and Employment	2008	On going
Arctic Seas Programme	TeKes	2014	2017
Maritime and Offshore from Finland Initiative	Finpro and Team Finland	2014	On going
Investment aid for retrofitting operations to vessels currently in use	Ministry of transport and communication	2010	2016
Investment aid scheme for environmentally friendly vessels	Ministry of transport and communication	2010	2016

2. Government policies

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Unit price (nominal) of the vessels built by Finish shipyards, USD per cgt



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Innovation aid

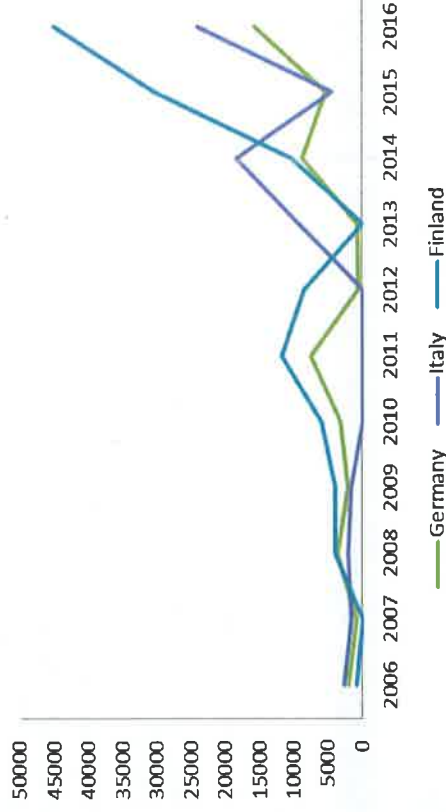
- Innovation aid has been granted under the forms of direct grants since **2008**.
- Scope of the projects eligible for the innovation aid
 - ✓ technologically new; or
 - ✓ substantially improve products and processes
- Maximum aid intensity;
 - ✓ 25 percent of the costs
 - ✓ The total maximum amount of aid awarded to a project is EUR 10 million.

Table. Amount of innovation aids, in millions of EUR

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Innovation aid	9	9	4-51	14-9	0	38-9	10-0	12-7	7-5

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Export Credit volume for selected countries, in USD per cgt



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Equity investment to shipyards by Tesi

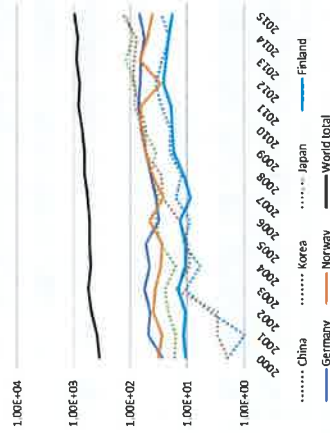
- Tesi (Finnish Industry Investment Ltd), 100% owned by Finnish State,
- Tesi provides financing based on its investment policy and the following criteria:
 - ✓ Tesi invests **only to profit-seeking company**;
 - ✓ Tesi invests on market conform terms **symmetric with private co-investors**;
 - ✓ Tesi does not include any state aid component in its investment;
 - ✓ Tesi specifies **exit target in advance**;
 - ✓ Tesi's share of the total investment is **never more than 50 %**;
- **Tesi's investment to shipyards**
 - ✓ Turku shipyard; Tesi purchased 30 percent of the capital in September 2014 and exited in April 2015
 - ✓ Rauma shipyard; Tesi participated in an investment round which increased RMC's share capital to nearly EUR 25 million, Tesi still holds 16.3 % of RMC shares

2. Government policies

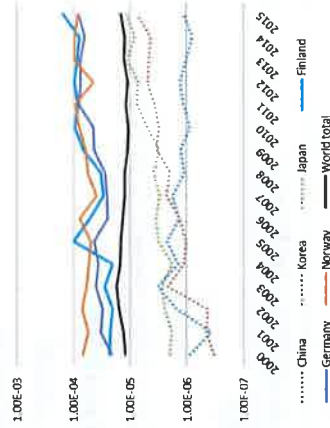
2. Government policies

Patent application numbers in ship sector by country, # and # per shipbuilding capacity

(a) Patent publication number by selected country, #



(b) Patent publication per shipbuilding capacity, # per cgt



Analysis of consistency of selected policy measures with international commitments

Programs	International commitments to be referred
Export credit	The Arrangement and the SSU
Tekes programmes	The General Arrangement, The General Guidelines, and The Agreement
Innovation aid	The General Arrangement, The General Guidelines, and The Agreement

Abbreviations:

The Arrangement; the Arrangement on Officially Supported Export Credits

The SSU; Sector Understanding on export credit for ship

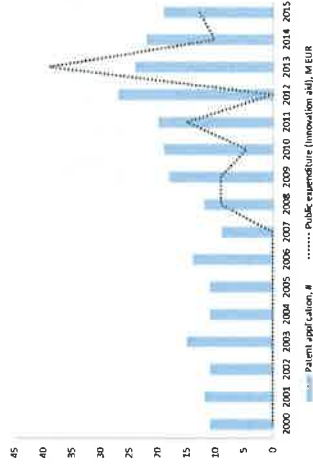
The General Arrangement; Revised General Arrangement for the Progressive Removal of Obstacles to Normal Competitive Conditions in the Shipbuilding Industry

The General Guidelines; Revised General Guidelines for Government Policies in the Shipbuilding Industry and Shipbuilding Agreement

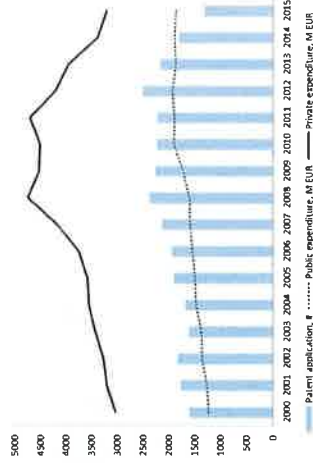
The Agreement; Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry

R&D expenditure in nominal terms and patent publication in Finland, # & mn EUR

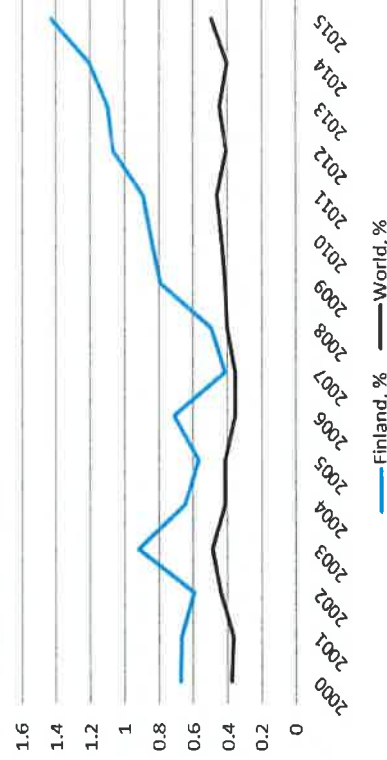
(a) Ship sector



(b) All sector



Share of maritime sector in total patent application counts



2. Government policies



ITEM 5: SHIP RECYCLING – AN OVERVIEW

Document: C/WP6(2017)14

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division,

Ms. Karin GOURDON, Karin.GOURDON@oecd.org

Mr. Christian STEIDL, Christian.STEIDL@oecd.org



Outline

1. **Features of the global ship recycling industry**
2. **Outlook on ship demolitions**
 - Baseline scenario
 - Potential impact of Ballast Water Management Convention
3. **International and regional policies**
 - IMO Hong Kong Convention (2009)
 - EU Ship Recycling Regulation (2013)
4. **Recycling policies in comparable industries**
 - Aircraft industry
 - Vehicle industry
5. **Discussion points and comments received**

Issues for discussion

- How can the Finnish shipbuilding industry and accompanying policies enable the maintenance of the Finnish market share in the global shipbuilding market and notably in the cruise ship and ice breaker segments?
- What are the potential gains in terms of competitiveness of the new innovations (e.g. digitalization) on which Finland's marine cluster is focusing?
- What are the synergies in the marine cluster and how can they be strengthened?
- What can be done to support a more systematic approach to improving workers' skills?
- What are the trends in terms of greener ship production in Finland?
- What are the impacts of the establishment of the Emission Control Areas?
- How can Finnish policymakers respond to the slow progress of international environmental regulations?
- How does the Finnish government assess the efficiency of each of the policies supporting the maritime sector?
- Does this policy assessment, notably regarding the provision of officially supported export credits, include the assessment of a potential market distorting effects?
- Why and how was Team Finland established? And how it can be assessed so far?

3. Issues for discussion



Thank you.



Outline

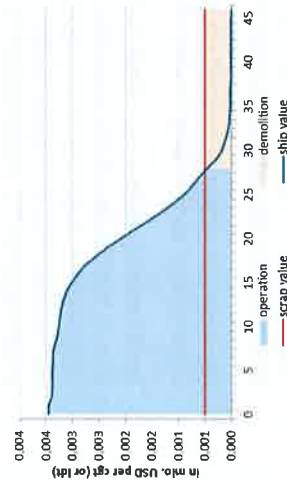
1. Features of the global ship recycling industry
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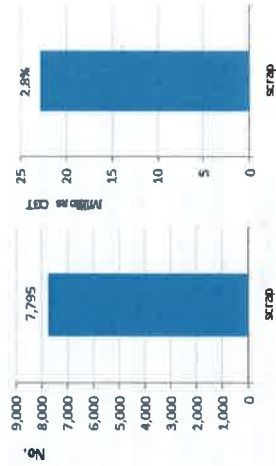
Baseline scenario

Example of decision making process by ship owner



Source: author's representation

Estimates of demolition in no. (lhs) and volume (rhs)



Note: The analysis does not limit the size of ships. All vessels in the fleet as of September 2017 are included.
Source: OECD based on Clarkson's World Fleet Register



Major industry features

- **Top 5 recycling countries make up ~97% of global demolition volume** already for more than 10 years*: India (34%), Bangladesh (25%), China (18%), Pakistan (14%) and Turkey (6%).
- Shift to Asia due to **lower labour, environmental and safety compliance costs**: massive negative externalities of ship recycling if not carried out in a proper and safe way; differences between recycling approaches (i.e. intertidal landing/beaching, facilities).
- **Annual demolition volume makes up ~0.5% (in 2005) to 3-5% (in 2012)** of global fleet corresponding to **5 to 36 mio. gt.**
- **Large ocean-going vessels**: bulkers, containers, oil tankers, ore carriers (reaching up to 175 000 gt).
- **Median vessel size doubled between 2009 and 2016**: from ~10 000 to ~22 000 gross tons.

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* Given the data availability going back to 2005 in Clarkson's Research module "World Fleet Register".
Note: Specific figures in brackets relate to 2017.



Major determinants of ship demolitions

Age:

- Older vessels are more likely to be scrapped (i.e. lower net present value of discounted future revenues due to less efficiency, higher maintenance and compliance costs etc.).

- Average demolition age of 25-35 years with minor variations by ship type

Freight market (i.e. revenues) & scrap prices

- Negative relationship between freight earnings and demolition probability: exploit vessel to generate revenues rather than ordering a newbuilding and wait for deliver over several months (e.g. time from order to delivery date reached 3 1/2 years between 2006 and 2008)
- Positive relationship between demolition and scrap prices: e.g. higher steel prices increase owners' revenues from recycling.

Changes in vessel features

- Obligation to meet policy requirements: e.g. Energy Efficiency Design Index (EEDI), IMO Ballast Water Management Convention (BWMC) [see 2nd part]

Note: There is an excellent study on major determinants of ship demolitions by Knapp S., S. Kumar, A. Romijn (2009) "Economic analysis of the ship-demolition market".



IMO Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships (2009)

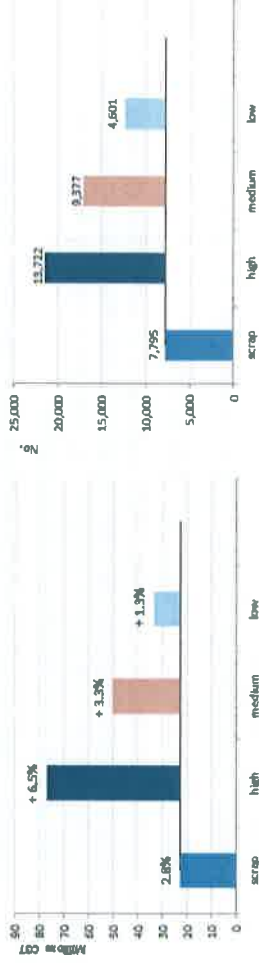
- Parties to the Convention have an obligation to **prohibit and/or restrict the installation/use of hazardous materials***
- All ships are required to have on board a **ship specific inventory of hazardous materials** (updated throughout the ship's life)
- Authorized ship-recycling facilities** under the Convention, i.e. are able to undertake all the recycling activities, prepare a recycling plan, outline plans detailing how to prevent hazardous conditions (e.g. explosions, fire, accidents, spills, emissions etc.) that can harm human health and/or the environment, waste management, emergency preparedness and response, worker safety and training, reporting on incidents/accidents/occupational diseases etc.
- Countries having ratified HKC** (as of November 2017): Belgium, France, Norway, Panama and the Republic of Congo accounting for ~ **56 000 gt** in annual recycling volume (**Goal: 15 mio. gt** which would be reached with the ratification of the 5 biggest recycling states)

* The banning of hazardous materials was already regulated by conventions before HKC, such as SOLAS



Effect of Ballast Water Management Convention (BWMC)

Estimates of demolition volumes (lhs) and no (rhs) by cost scenario



- Assumption of installation costs of BWMC system of \$0.5 (low cost scenario), \$ 1.5 mio (medium) and \$3 mio (high).
- Simulation results show an increase in demolition volume of 1.3% to 6.5% compared to the baseline scenario or additional 4 600 to 14 000 vessels*

* Vessels >100 gt in the fleet as of September 2017, & excluding vessels with BWMC system or which are not obliged to have one (i.e. domestically trading)
Source: OECD based on Clarkson's World Fleet Register



EU Ship Recycling Regulation (2013)

- Based on HKC with additions** on Health, Safety and Environmental (HSE) requirements, downstream waste management, Inventory of Hazardous Materials (i.e. it adds two substances to the list) and control mechanisms.
- Sets standards** for the recycling of EU-flagged ships.
- List of Ship Recycling Facilities** (enter into force at the latest on 31 December 2018):
 - facilities complying with the regulation's standards & requirements.
 - 18 EU facilities accepted on the list and 22 non-EU applications as of November 2017.
- Study by Ecorys/DNV/Rotterdam University introducing, among others, the concept of a **Ship Recycling Licence**, a financial incentive aimed at avoiding to circumvent regulation by changing vessel flag before demolition.

* The banning of hazardous materials was already regulated by conventions before HKC, such as SOLAS



Outline

- Features of the global ship recycling industry**
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- Recycling policies in comparable industries**
 - Aircraft industry
 - Vehicle industry
- Discussion points and comments received**



Recycling policies in comparable industries (2/2)

Examples in the vehicle industry

- European Union End-of-Life Vehicles Directive: EU Member States are required to establish collection systems for end-of-life vehicles and ensure that all vehicles are transferred to authorized treatment facilities with the use of a system of vehicle deregistration which is based on a certificate of destruction.
- Auto recycling Netherlands collects scrap cars and oversees dismantling and recycling. The system is financed through a waste disposal fee payable as part of vehicle registration.
- Similarly national policies in Sweden, United Kingdom, Japan, Korea, United States.

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Outline

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Recycling policies in comparable industries (1/2)

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3. International and regional policies

- IMO Hong Kong Convention (2009)
- EU Ship Recycling Regulation (2013)

4. Recycling policies in comparable industries

- Aircraft industry
- Vehicle industry

5. Comments received for further analysis

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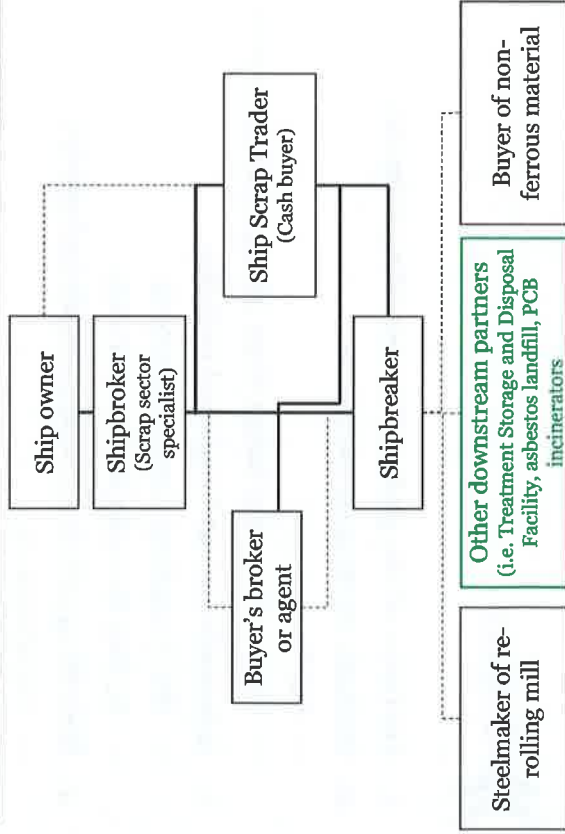
All policies or initiatives in the aircraft and vehicle industry feature shared responsibility of recycling solutions throughout the supply chain from producer to user.

Examples in the Aircraft industry

- Boeing's AFRA initiative including members throughout the supply chain to develop industrial standards on aircraft recycling: Aircraft Disassembly Best Management Practice (2009), Aircraft Recycling Best Management Practice (2012) as a basis for accreditation of recycling facilities.
- Airbus' "Process for Advanced Management of End-of-Life Aircraft" in 2005: compliance with relevant waste regulations, encouraged recycling firms to achieve a recycling rate of 85%, establishment of TARMAC Aerospace as the first company dedicated to dismantling end-of-life aircraft in an environmentally-friendly way. Fully integrated lifecycle approach by sharing the experience and information from the recycling process with its design teams and suppliers.



Main market players



Comments received for further analysis

- Including a more detailed discussion on the **negative externalities of ship recycling** (i.e. lack of downstream waste management, high number of accidents/fatalities etc.)
- Separate analysis by **demolition method**
- **Global aspect and role of steel market**, and implications of low quality re-rolling.
- Analysing the feasibility of **multi-functional yards**.
- **Limiting sample for estimations to vessels above 500 GT** in order to seize the market for large ocean-going vessels.
- Analysis of **cash buyers'/intermediates' business model**.



Back casting of baseline estimates

year	actual	back cast
2013	2.6%	2.7%
2014	1.9%	3.7%
2015	1.6%	1.8%
2016	2.1%	1.2%

Back casting of demolition rates for previous years with the same approach shows results similar to actual values for the years 2013 and 2015, but deviations for the years 2014 and 2016 (see table below). However, it is important to note that the analysis for the fleet of years before 2017 is based on a reconstructed fleet of around 90 000 vessels. This reconstructed fleet is only a proxy, hence, it may not represent precisely the fleet in each of the years from 2013 to 2016 and may therefore bias the results. In contrast, the fleet of September 2017, which is used for this analysis, is the actual fleet downloaded from Clarkson World Fleet Register in September 2017.



Thank you.

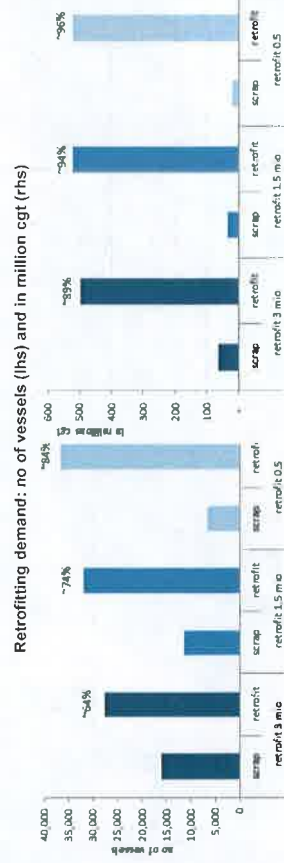
Shipbreaking in South Asia And Importance of HKC

Kan Matsuzaki
 Director Shipbuilding and Shipbreaking
 IndustriALL Global Union



Effect of Ballast Water Management Convention (BWMC) (2/2)

- Need for retrofitting of ~60%-84% of vessels.
- Retrofitting demand for ballast water management systems may occupy around 20% to 50% of retrofitting capacity in the coming 7 years [C/WP6(2017)16].
- More integrated value chain from production to recycling: Supporting the development of multi-functional yards.

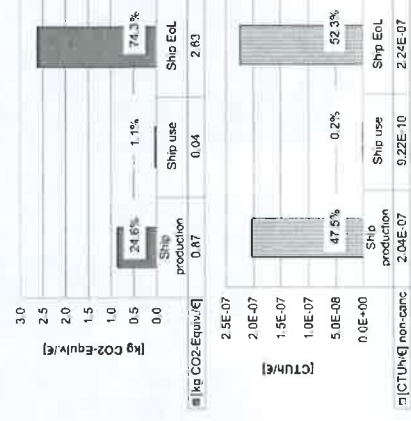


Source: OECD based on Clarksons World Fleet Register.



Environmental and health costs across ship life cycle

Adjusted eco-efficiency (inverse) for the three ship life cycles

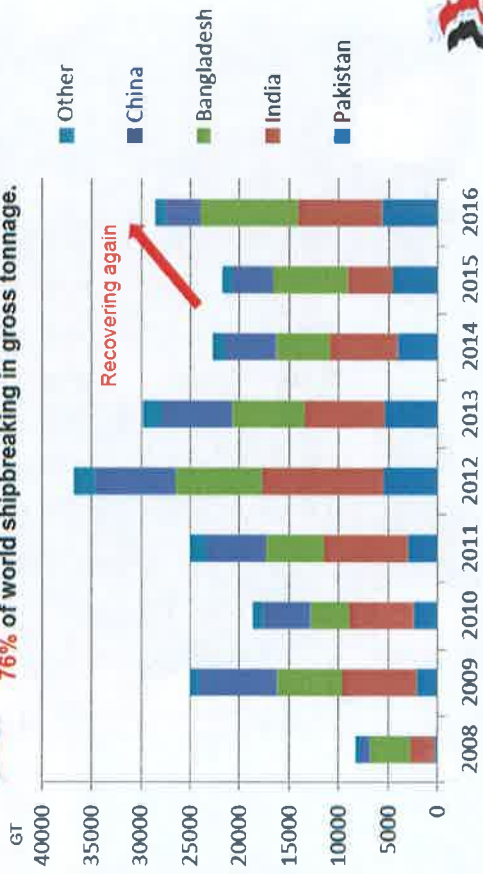


Note: The toxicity indicator "comparative toxic units: human" (CTU_h) assesses only potential non-chronic effects on human health. It is important to note that this indicator does not include the local impact on human health due to the manual labour from ship breaking. The results therefore underestimate the local impact on human health.
 Source: Ko and Gantner (2016)

Trends in Shipbreaking Industry 1

Shipbreaking by Countries

South Asia region- India, Bangladesh, and Pakistan account 76% of world shipbreaking in gross tonnage.

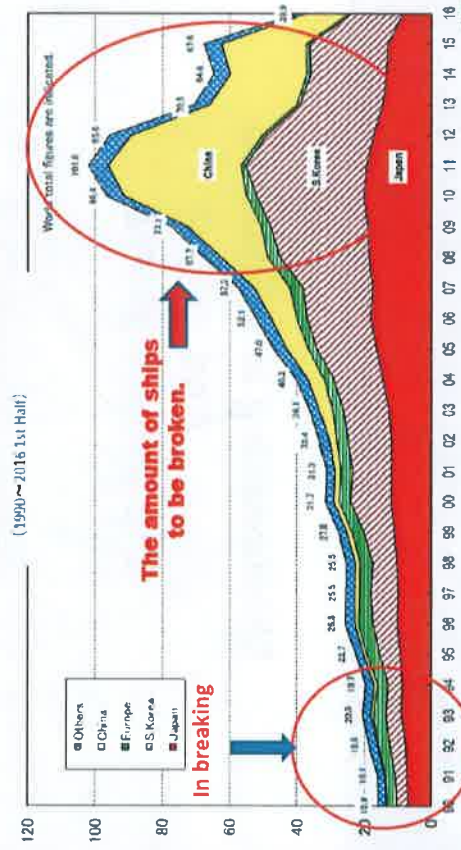


Source: "Shipbuilding Statistics" September 2018, the Shipbuilders' Association of Japan



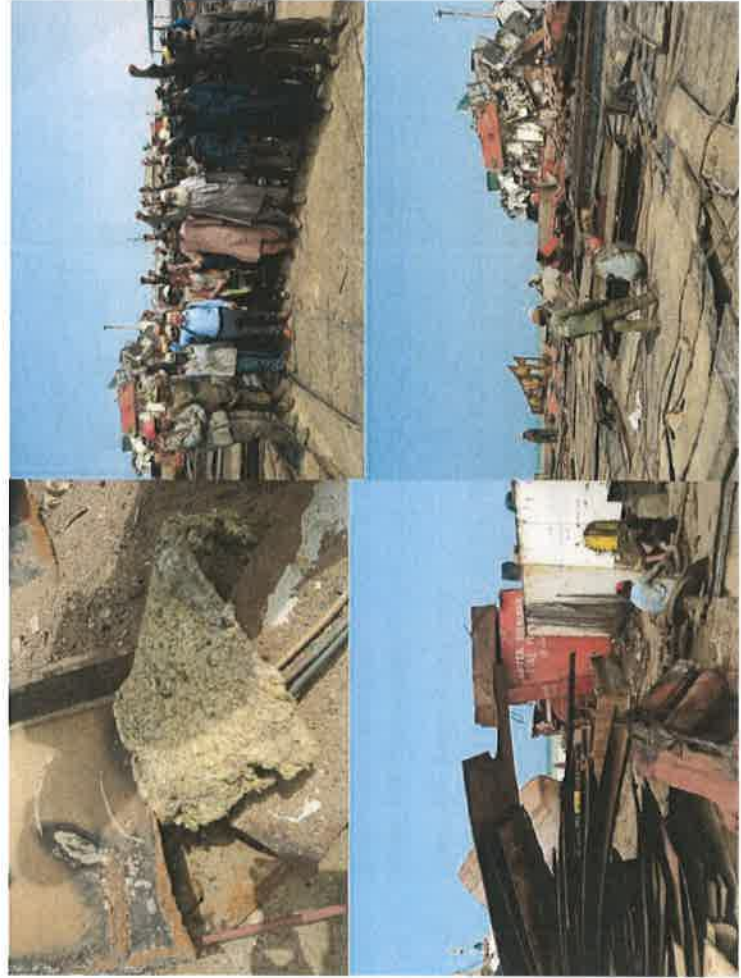
Trends in Shipbreaking Industry 2

Shipbreaking will continue to increase
WORLD COMPLETIONS



(Note) 1. Data Source: IHS/Former Lloyd's Register, Until 1987, launched base. After 1988, delivered base.
2. Ship Size Coverage: 100 GT and over

Source: "Shipbuilding Statistics" September 2016, the Shipbuilders' Association of Japan





Why We Need HK Convention?

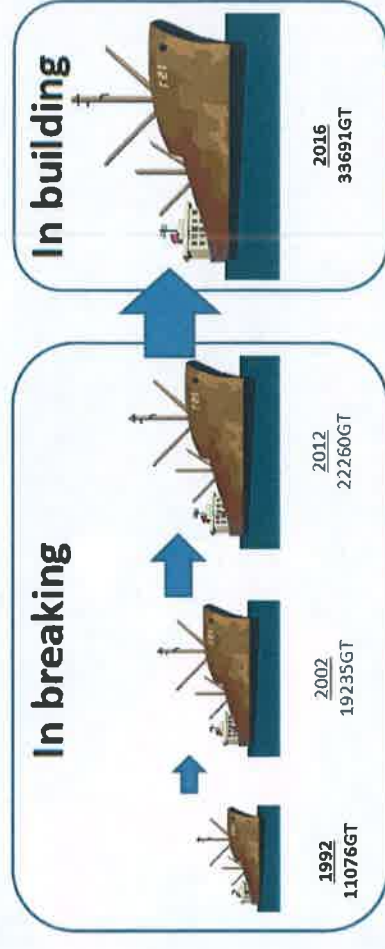
It could contribute to the sustainable employment/decent work

- ✓ International convention
- ✓ Realistic (concrete steps)
- ✓ Sustainable for all parties
- ✓ Effective implementation and monitoring
- ✓ Social Dialogue



Trends in Shipbreaking Industry 3

3 x bigger sized ships to be broken in the future



Average age of ships sold for shipbreaking is 25-30 years



No. of Shipbreaking Workers and unions in South Asia Region



PAKISTAN
20,000

INDIA
66,000



BANGLADESH
39,000

Over 130,000 workers in shipbreaking and more than 1 million workers in downstream industry in South Asia region.





International Trade and Investment of State Enterprises

—Key Issues and Takeaways*

Przemyslaw Kowalski
Trade and Agriculture Directorate, OECD

Council Working Party on Shipbuilding
21 November 2017

* The views presented here do not necessarily represent the views of the OECD Trade Committee or its Members



Outline

- OECD Trade Committee-sponsored work on SE-related issues
- Key conclusions
- Recent work on current policy environment for international trade and FDI of state enterprises and its likely evolution

HKC's application and conditions for entry into force

	Requirements	Current situation
No. Contracting parties	15 States	6(7) states (Belgium, Congo, Denmark, France, Norway, Panama, and (Turkey))
Fleet	40% of GT of the world's merchant shipping	21% of GT of the world's merchant shipping (as of 2016)
Recycling capacity	Maximum annual ship recycling volume of the signing states during the preceding 10 years constitutes not less than 3% of GT of the states	None

We need 8 states with more than 19% of GT of the world's merchant shipping, including major shipbreaking states such as China and India

Thank you

Website
www.industriALL-union.org

IndustriALL

To what extent does the State (Owned) Enterprise perspective help?

- **SOEs:** Ownership, implies certain interests, rights and obligations characteristic to an owner and thus exertion of state influence may be more likely (newer PTAs)
- **SEs:** but ownership does not inevitably entail influence and state-controlled or otherwise state-influenced enterprises can have very similar effects so where to draw the line?
- **In general:** governments can influence behaviour of different kinds of enterprises in a variety of ways (subsidies, discriminatory regulations) so why not focus on specific kinds of distortions? (WTO)

Strengths and weaknesses of relevant WTO disciplines

Government policies that advantage SEs	SEs as "extensions" of governments	SEs as service providers
<ul style="list-style-type: none"> • Difficult to identify presence of a benefit/formal link with state in presence of widespread distortions • Commercial and non-commercial activities often not separated 	<ul style="list-style-type: none"> • Uncertain determination of "public body" status • Uncertain identification of indirect subsidies (ex. below-the market financing) 	<ul style="list-style-type: none"> • Carve-out for "services provided in the exercise of governmental authority" with loosely defined "commercial basis" • Absence of binding disciplines on subsidies

- Ownership a useful criteria for determining the relationship with the state?
- Could more extensive requirements on transparency and disclosure (e.g. building on OECD SOE Guidelines) strengthen enforcement of WTO rules?
- Could binding rules on subsidies in services help and become a model for regulating investment flows?

OECD Trade Committee work on State Enterprises

- Two workshops in [2012](#) and [2014](#) (academia, business, policy makers)
- [Business Survey on State Influence on Competition in International Markets](#)
- [On-line Database on National Practices and Regulations with Respect to State Enterprises](#)
- Contributions to the horizontal OECD project on ["State-owned Enterprises in the Global Marketplace"](#)
- OECD Trade Policy Papers:
 - No. 147, (2013), ["State-Owned Enterprises: Trade Effects and Policy Implications"](#)
 - No. 184, (2015), ["International Trade and Investment by State Enterprises"](#)
 - No. 201, (2017), ["Bringing Together International Trade and Investment Perspectives on State Enterprises"](#)

Key issues

- For gains from international trade and investment to materialise policies must not play too large a role in subsidising or otherwise influencing international commerce
- How to minimise market distortions as well as unjustified protectionist responses?
- SEs are just one element of this debate (there are other forms of trade-distorting intervention: subsidies, discriminatory regulations, etc.).

Thank you!

We look forward to hearing from you!

Contact for this presentation: Przemyslaw.Kowalski@oecd.org



Access all of the information from the Trade & Agriculture Directorate at:

www.oecd.org/tad

You can reach us via e-mail by sending your message to the following address:

tad.contact@oecd.org

We invite you to connect with us on Twitter by following:

[@OECDTrade](https://twitter.com/OECDTrade)



SIZE AND SECTORAL DISTRIBUTION OF STATE-OWNED ENTERPRISES

METHODOLOGY, MAIN FINDINGS AND NEXT STEPS

Council Working Party on Shipbuilding
21 November 2017

Korin Kane, Corporate Affairs Division
OECD Directorate for Financial and Enterprise Affairs

Recent PTAs include clearer definitions and more extensive obligations concerning SEs

Definitions	Non-discriminatory treatment	Advantages to and by SEs	Competition	Transparency
<ul style="list-style-type: none"> Ownership Control (votes, board) Commercial activities BITs: Are SEs covered by ISDS? 	<ul style="list-style-type: none"> PTAs refer to WTO: domestic SEs cannot be favoured BITs: are SEs granted NDT pre and post-establishment? 	<ul style="list-style-type: none"> Explicit bans on advantages to and by commercially active SEs More precise definitions of advantages (non-commercial assistance, effects and injury) Coverage of goods, services and investment 	<ul style="list-style-type: none"> Prohibition of anticompetitive practices by monopolies and SEs Commercial considerations SEs subject to obligation competition laws But rarely subject to dispute settlement 	<ul style="list-style-type: none"> Provision of information on SEs More elaborated provisions on transparency References to OECD SOE Guidelines

- Upgrading of international regulation on SEs is underway
- Will it result in consolidation of approaches or their fragmentation?

Source: OECD (2017), *"Bringing Together International Trade and Investment Perspectives on State Enterprises"*
Trade and Agriculture Directorate | Organisation for Economic Co-operation and Development (OECD) | www.oecd.org/tad | tad.contact@oecd.org

Investment agreements may need to converge with trade agreements to facilitate efficient investment

<p>BITs focus on investor protection, not on competitive rules of the game</p>	<ul style="list-style-type: none"> SEs under BITs may benefit from protection while enjoying advantages from home States They can be discriminated against
<p>PTAs focus on competitive rules of the game</p>	<ul style="list-style-type: none"> SEs under the WTO and PTAs are required not to discriminate and play by market rules They are not discriminated against
<p>Complexity of todays markets make State intervention more versatile</p>	<ul style="list-style-type: none"> New agreements will need to consistently cover trade investment and competition issues

- Countries may be able to commit not to discriminate against SE investors, if SE investors commit to play by market rules

Source: OECD (2017), *"Bringing Together International Trade and Investment Perspectives on State Enterprises"*
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Background



- Third edition of a recurrent review of the characteristics of national state-owned enterprise sectors, by the Working Party on State Ownership and Privatisation Practices.
- Covers 40 countries, mainly in the OECD area but also, for the first time, Argentina, Brazil, China, India and (partially) Saudi Arabia.
- Examines the size of SOEs – by company value and employment – and their distribution by sector and corporate form.
- Also examines state minority shareholdings in listed companies, including an inventory of individual enterprises.



Data sources

- Based primarily on **self-reporting by national authorities** participating in the Working Party on State Ownership and Privatisation Practices through a questionnaire requesting value and employment figures for SOEs, aggregated by both sector and corporate form. Data from end-2015.
- In some cases, **other non-governmental institutions** have collected the data (China: King Parallel Consulting, based on the Wind database, entities' annual reports and the 2015 SASAC Yearbook; India: Institute of Public Enterprise).



Structure of presentation

1. Methodology
2. Main findings
3. Next steps



1. METHODOLOGY



2. MAIN FINDINGS



Overview

- Taking China aside for a moment, the 39 other governments in the sample area are the full or majority owners of:
 - **2 467** enterprises, an average of **63 SOEs per country**
 - Valued at **USD 2.4 trillion**, an average of **~USD 62 billion per country**, or approximately equivalent to the market value of Uber
 - Employing over **9.2 million people**, approximately equivalent to the total number of non-agricultural employees in Australia

Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Notes: Figures exclude China. Includes only commercially-oriented enterprises, based on the scope of applicability of the OECD Guidelines on Corporate Governance of SOEs.



Data sources (continued)

- Information on listed companies – which includes enterprise-specific details on ownership, value and employment – is either based on, or has been verified through, the **external database FactSet**.
- In addition to questionnaire responses, follow up with delegates was undertaken to determine whether **changes in national data** tables since last edition reflected (1) changes in methodology or (2) evolutions in national SOE portfolios (e.g. corporate restructurings, divestment, SOE creation).



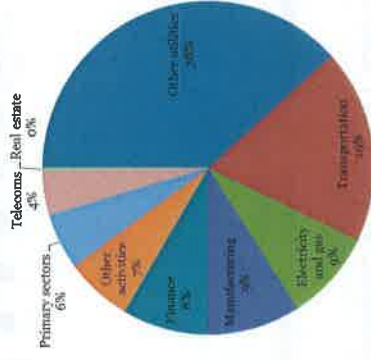
Changes since the last edition (2012)

- **Broadened geographical scope**, including for the first time Argentina, Brazil, China, India and (partially) Saudi Arabia.
- While comparative data only focuses on SOEs at the central level of government, country-specific data for China also includes enterprises held at the **sub-national level**.
- Refined scope to include only **enterprises engaged in economic activities** in the marketplace, reflecting the scope of applicability of the revised SOE Guidelines.
- **Evolutions in state ownership** since the last edition (2012 data) are highlighted in a new section.



Network industries represent a higher share when measured by employment

Sectoral distribution of SOEs by employment (sample area excluding China)

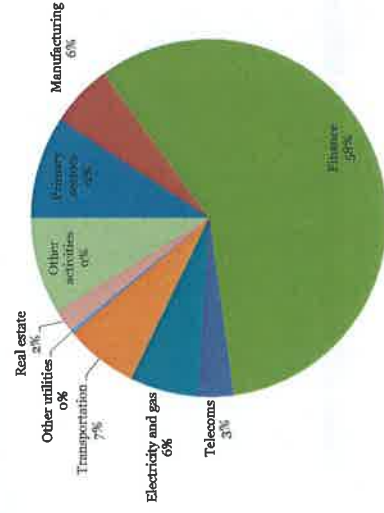


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Chinese SOEs are more concentrated in financial sector, measured by value

Sectoral distribution of Chinese SOEs by value

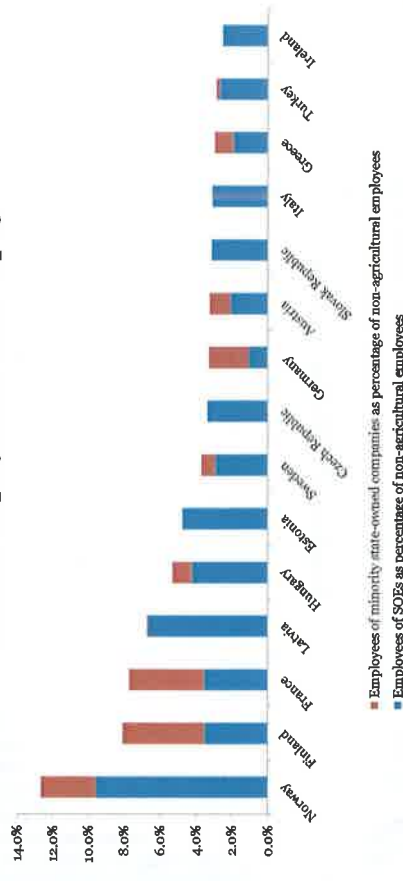


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Employment share rises when minority shareholdings are included

Employees of SOEs and state minority holdings as % of national employment: OECD top 15

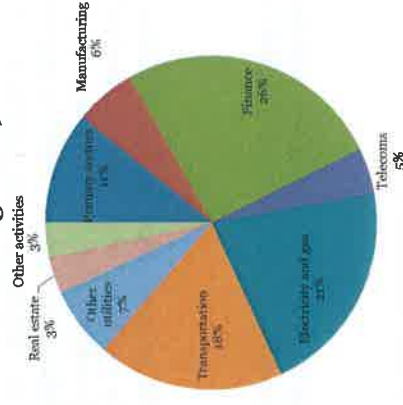


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



SOEs are highly concentrated in the network industries, measured by value

Sectoral distribution of SOEs by value (sample area excluding China)

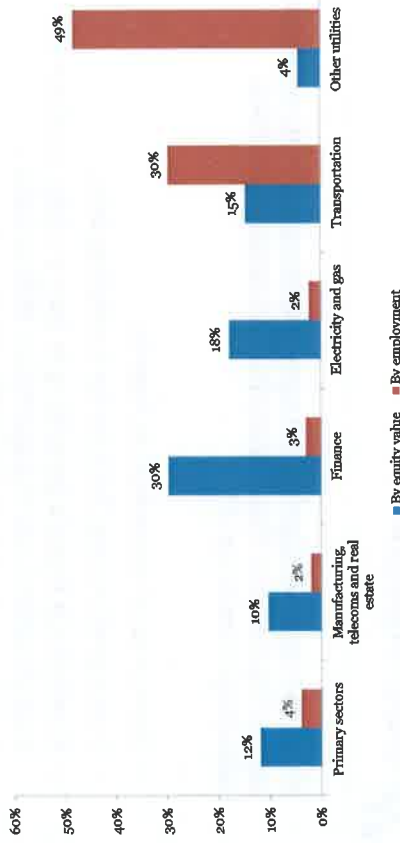


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Statutory SOEs more concentrated in transportation and other utilities

Sectoral distribution of statutory SOEs (sample area excluding China)

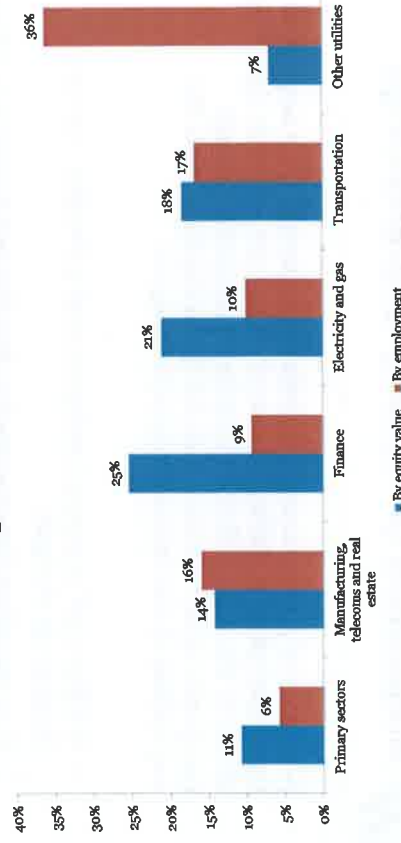


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Statutory SOEs more concentrated in transportation and other utilities

Sectoral distribution of fully corporatised SOEs (sample area excluding China)

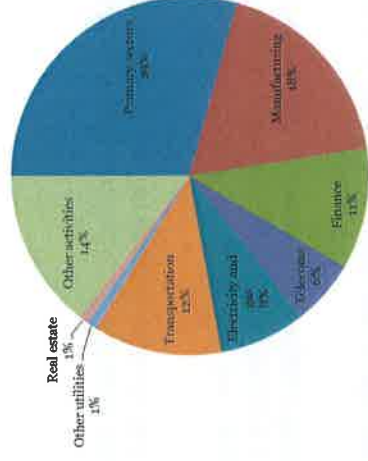


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Measured by employment, primary sector and manufacturing lead in China

Sectoral distribution of Chinese SOEs by employment

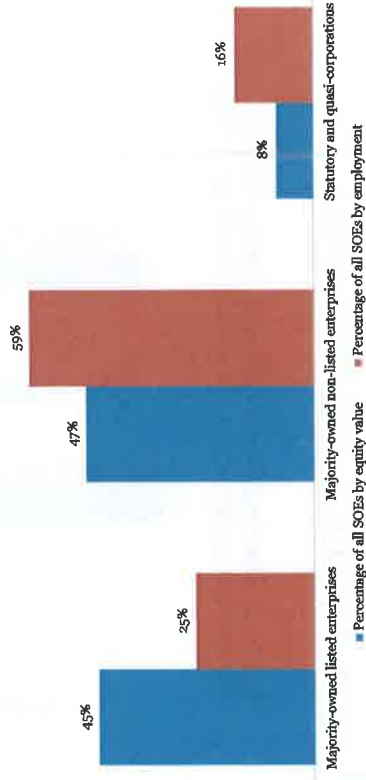


Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



Fully incorporated entities are the predominant corporate form

Corporate forms of SOEs by value and employment (sample area excluding China)



Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



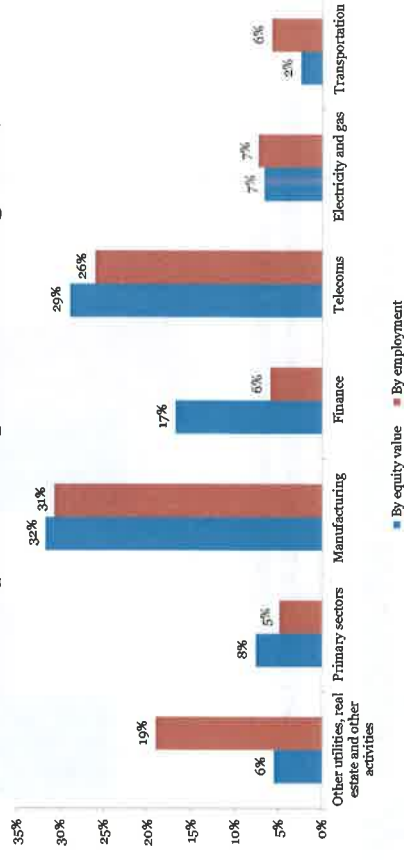
Acquisition of minority shareholdings

- A number of governments, particularly in Europe, have **acquired minority shareholdings** in listed companies, possibly signalling efforts to shore up failing companies or maintain strategic companies under national ownership. Examples include the acquisition of state minority shareholdings in:
 - SSAB (a steel company headquartered in Sweden) through Solidium in Finland;
 - Two manufacturing companies, PSA Peugeot Group and Airbus Group, in France;
 - Two electricity companies in Hungary;
 - An information technology company and a food processing company in Spain; and
 - Broadway Financial Corporation in the United States.



Minority shareholdings concentrated in manufacturing and telecoms

Sectoral distribution of minority shareholdings in listed companies (sample area excluding China)



Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris. Note: Figures exclude China.



SOE creation

- There has been **no significant upward trend in SOE creation** reported since 2012. Some examples were nonetheless cited, including the creation of:
 - One financial sector SOE in Austria;
 - Two manufacturing SOEs in the Czech Republic;
 - Five SOEs in Estonia (operating in finance, dairy production transportation); one transportation SOE in Latvia;
 - One financial SOE (the Public Investment Development Agency) and an agricultural SOE in Lithuania; and
 - The incorporation of four new SOEs in New Zealand (Education Payroll, Otakaro, Crown Irrigation and Network 4 Learning).



Changes in the state ownership landscape since previous edition

- Undertaking a definitive time series comparison between the two editions is not possible, owing among others to changes in methodology (e.g. refined scope, changes in sectoral classification).
- Nonetheless, some **overarching trends** can be distilled from information provided by Working Party delegates.



Divestment and privatisation

- Since 2012, a number of countries have **reduced or divested** their (often minority) shareholdings in listed SOEs, or have privatised.

Czech Republic	Privatisation of one transportation SOE.
Denmark	Decrease in equity stake in telecoms company Telenor to below 10%.
Greece	Divestment of state shares in the listed gambling company OPAP.
Italy	Divestment of state shares in the listed railway company Ansaldo (sold to Hitachi).
Korea	Divestment of minority stake in listed Lotte Tour Development Company.
Latvia	Sale of the state-owned bank, Citadele.
Netherlands	Sale of state's share in Maastricht Aachen Airport (occurred in 2004, but proceeds were kept in a shell company until divestment in 2014), sale of Twinnings.
Norway	Divestment of remaining 59.17% state ownership in fish farming company Cermaq (to Mitsubishi).
Sweden	Sale of remaining minority stake in the listed Nordea Bank.
United Kingdom	Sale of Royal Mail, Eurostar and Working Links. Reduction of the UK government's stake in the listed Lloyds Banking Group to below 10%.
United States	Decrease or full divestment of minority stakes in General Motors and two listed banks.

Listing on stock exchanges

- A few countries have **listed shares of SOEs** on national stock exchanges. Examples include:
 - The listing of three SOEs in **Italy** (Poste SpA, Rai Way SpA and Fincantieri);
 - The listing of ABN Amro in the **Netherlands** (a bank that was previously unlisted and majority state-owned, acquired by the state following the 2008 financial crisis);
 - The partial listing of Genesis, Mercury (previously Mighty River Power) and Meridian in **New Zealand**; and
 - The IPO of the real estate company Entra Eiendom ASA in **Norway**, bringing the state's equity share to 49.73%.

SOE bankruptcy and liquidations

- A **small number of SOE bankruptcies** or liquidations since 2012 were reported. These include:
 - The liquidation of the state-owned coal company ENACAR in Chile
 - The bankruptcy of the state-owned mining company Talvivaara in Kawivosakeyhtio in Finland; and
 - The bankruptcy of Lithuanian Shipping Company.

Mergers and other corporate restructurings

- A few examples of **corporate mergers or other restructuring** were reported. These include:
- The **consolidation** of state-owned airports in Lithuania.
 - The **transformation of SOEs** into subsidiaries of other SOEs in Chile and Lithuania.
 - Other corporate **restructurings and spinoffs** leading to an increase in the number of SOEs, e.g. in the state-owned financial sector in Germany and in the primary, telecoms and other utilities sectors in the Czech Republic.



More information

For more information, visit
www.oecd.org/daf/ca/soemarket.htm



ITEM 7 II) THE POSSIBLE REVISION OF THE WP6 INVENTORY QUESTIONNAIRE

Document: C/WP6(2017)19

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division,
Mr. Laurent DANIEL, Laurent.DANIEL@oecd.org
Mr. Kei ITO, Kei.ITO@oecd.org



3. NEXT STEPS



Proposals

- Publish **national data tables online** in Excel format, to maximise accessibility and use for a broader audience.
- Publish the full **inventory of listed companies** online (with company-specific ownership details).
- Include **additional countries** (e.g. Russia) in the online version of the data.
- Undertake **further analysis** of existing data, for example a comparison of SOEs' employment share across all 40 countries.

Summary of EU's de minimis rule - "Transparent de minimis aid"

Loan and guarantee has additional criteria for falling under scope of de minimis as calculation of the gross grant equivalent value is complicated.

Ex) Loans

- (a) the beneficiary is not subject to collective insolvency proceedings. In case of large undertakings, the beneficiary shall be in a situation comparable to a credit rating of at least B-; and
- (b) the loan is secured by collateral covering at least 50 % of the loan and the loan amounts to either EUR 1 000 000 over five years or EUR 500 000 over 10 years; or
- (c) the gross grant equivalent has been calculated on the basis of the reference rate applicable at the time of the grant.

24-Nov-
2017

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Proposal (1): Incorporating *de minimis* rule as it is to inventory for all measure category

- If aids provided by EU member countries are recognised as transparent "*de minimis*" aid stipulated in the provisions in the Treaty on the functioning of the EU, or if aids provided by non EU member countries are considered as aids in conformity with those provisions, the aids are not necessarily included in the Inventory report.

24-Nov-
2017

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Background

- At the last WP6 meeting, the delegates discussed possible amendment of the inventory questionnaire (Notably measure C, D and G)
 - C: Loans on terms and conditions more favourable than those that would be commercially available to the benefiting enterprise
 - D: Loan guarantees that support loans on terms and conditions more favourable than those that would be commercially available to the benefiting enterprise
- Delegates asked secretariat to explain summary of the EU's *de minimis* rules.

Summary of EU's de minimis rule

- EU requires EU members to report their state aid prior to implementation, according to Article 108 of the EU Treaty
- In accordance with "de minimis" rule, State aids whose a single undertaking does not exceed EUR 200,000 are not necessarily reported

24-Nov-
2017

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Proposal (2): Clarification of the measure C and D in terms of recipients

Clarification in the inventory questionnaire APPENDIX III: TYPES OF SUPPORT MEASURES

- Loans to a ward or yards
- Loan guarantees that support loans to a ward or yards

24-Nov-2017

State Ownership

- Backgrounds
 - In the decade, information on state ownership has not been reported
 - Based on the discussion in the WP6 June 2012 meeting, State ownership is excluded from the scope of inventory update exercise

24-Nov-2017



Proposal (1'): Incorporating simplified *transparent de minimis* rule to inventory for measure C and D

Measure C

- Loans meeting the following criteria are not necessarily reported;
 - (a) the beneficiary is not subject to collective insolvency proceedings. In case of large undertakings, the beneficiary shall be in a situation comparable to a credit rating of at least B-; and
 - (b) the loan is secured by collateral covering at least 50 % of the loan and the loan amounts up to either EUR 1 000 000 over five years or EUR 500 000 over 10 years

Measure D

- Guarantees meeting the following criteria are not necessarily reported;
 - (a) the beneficiary is not subject to collective insolvency proceedings. In case of large undertakings, the beneficiary shall be in a situation comparable to a credit rating of at least B-; and
 - (b) the guarantee does not exceed 80 % of the underlying loan and the amount guaranteed does not exceed EUR 1 500 000 if the duration of the guarantee is up to five years or does not exceed EUR 750 000 if the duration of the guarantee is up to 10 years

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Additional discussion points regarding measure C and D

- Unclear compartmentalization between measures in categories C/D and E
 - Measure C/D: no clear explanation on recipients
 - Measure E: recipients are buyers of ships

	Recipients	Threshold
Measure C (loan)/ D (guarantee)	Shipyards	-
Measure E (loan/guarantee)	Buyers	Domestic build requirement
Not covered in inventory	Buyers	No requirement on builder country

24-Nov-2017



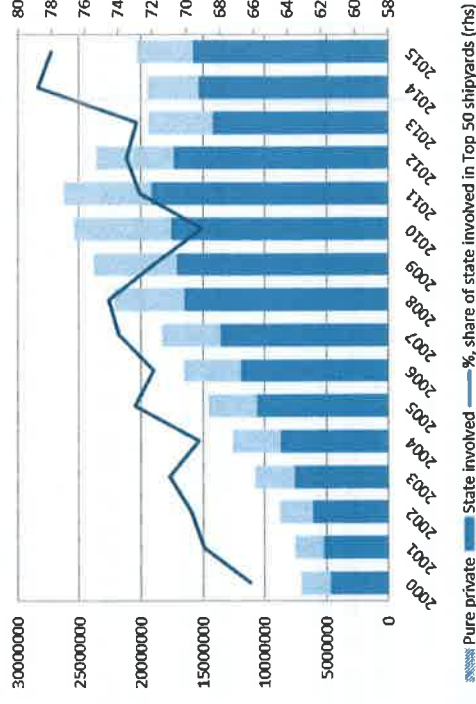
Draft revised Inventory questionnaire (ANNEX III).

- The delegates are invited to discuss the proposed revised Inventory questionnaire
- The delegates are invited to send a written comments by end of February 2017
- The inventory update for 2018 will be carried out with the existing questionnaire

24-Nov-2017



Completion of top 50 shipyards (state involved and pure private) between 2000 and 2015, cgt and %



24-Nov-2017



Proposal (3): Inclusion of State ownership in annual inventory updates

- Respondents including measures in the category g5 in their Inventory update are asked to provide;
 - (i) the share of state ownership of the recipient in percentage as of the end of previous year; and
 - (ii) the name of the recipient (i.e. shipyard).
- Based on the submission, the Secretariat will include in the annual Inventory report the list of state-involved shipbuilders with the percentage of state ownership.

24-Nov-2017

Thank you.

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Question 2

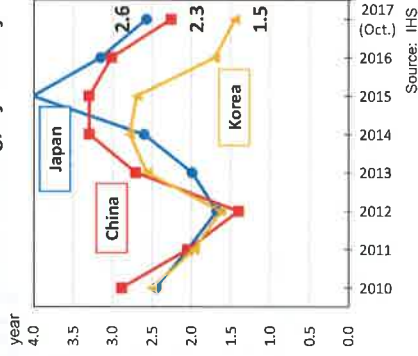
Question 2. Maintain employment

According to KOSHIPA(Korea Offshore & Shipbuilding Association), its member companies' shipbuilding and offshore employees declined by 40,000(people) last year and 31,000 in the first half of this year respectively, due to restructuring. On the other hand, based on the data from Shipbuilders' Association of Japan(SAJ), the member companies' total employment reduced by only 1% last year and the office workforce recorded the highest number in 30 years. Please provide any factors to maintain employment despite massive retirement of the baby boom generation.

Answer 2

- Shipbuilding capacity in Korea and Japan expanded by 136% and 33%, respectively, from 2005 to 2011.
- In Korea, due to such a significant capacity expansion, there has been a significant gap between its orderbook and capacity after the global financial crisis in 2008. It is considered that this significant gap led to the recent lay-offs in Korea.
- In Japan, as shipbuilding companies did not expand the capacity so much and have a stable employment plan with a long-term perspective, the employment in the Japanese shipbuilding industry is stable.

Order backlog, by country



Question 3

Question 3. Loan repayment period of JBIC

According to the news, JBIC(Japan Bank for International Cooperation) which is one of the Japanese ECAs, is offering loan repayment period over 12 years despite it is subject to SSU application. Please provide the loan repayment period information of JBIC.

Answer 3

- According to JBIC, the loan repayment period of the project is 12 years.

Japan's answers of questions submitted by Korea

Maritime Bureau

Ministry of Land, Infrastructure, Transport and Tourism (MLIT)

21st November, 2017

Question 1

Question 1. Imabari Shipbuilding expanded facilities

It was reported that Imabari Shipbuilding recently expanded its facilities by constructing ultra large-sized dry dock for the first time in 17 years. Please explain the background for adding new facilities under the global over capacity situation.

Answer 1.

- The capital investment questioned by Korea is a purely private activity and the Government of Japan does not involve it at all.
- As agreed at the last session, the scope of the questions is limited to policy-related issues. Therefore, it is not proper to deal with this question under this agenda item.

✓ In Japan, shipbuilding yards make capital investments on their own business decision and therefore the Government of Japan is not in a position to answer the question.

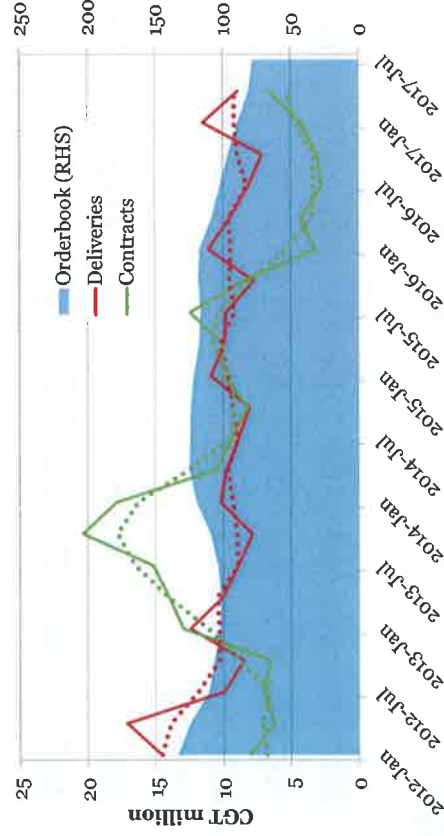
✓ Having said this, the Government of Japan understands that Imabari Shipbuilding tries to catch up market changes and needs to accommodate shipowners' needs for bigger ships.

Some caveats to bear in mind

- Growth in GDP does not necessarily imply growth in seaborne trade
 - Protectionist tendencies
 - Trade in services
 - Re-shoring
- Demand for shipping does not necessarily lead to increased orders
 - Regulations
 - Extended use of old ships
 - Ships as object of speculation

24-Nov-2017

Development of order book



Source: OECD calculation based on data from Clarkson World Fleet Register, dotted lines are moving averages to clarify trends

24-Nov-2017



ITEM 8: MARKET DEVELOPMENT REPORT

Document: C/WP6(2017)11

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division,

Mr. Laurent DANIEL, Laurent.DANIEL@oecd.org

Mr. Michele RIMINI, michela.rimini@oecd.org

Mr. Christian STEIDL, Christian.STEIDL@oecd.org



Global trends affecting shipbuilding

- Economic Activity
 - Global GDP growth
 - Growth in seaborne trade
- Environmental Regulation
 - Energy Efficiency Design Index
 - Emission Control Areas
 - Ballast Water Treatment Convention
- New or improved shipping infrastructure

24-Nov-2017

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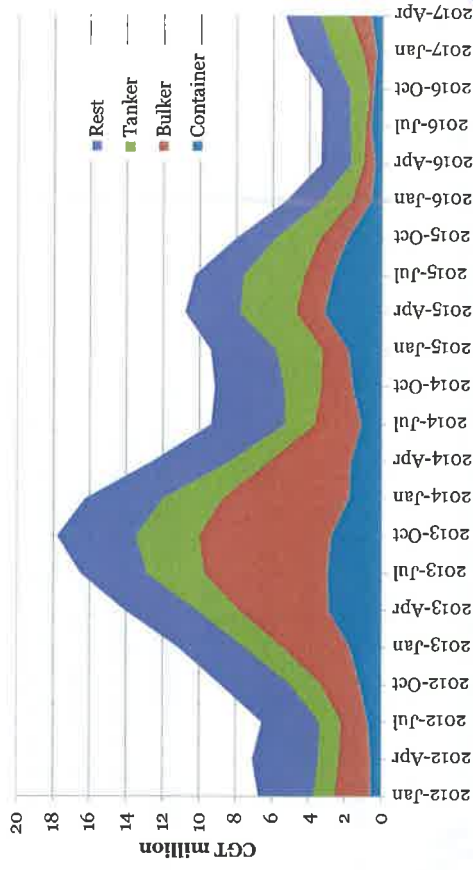
Market situation for builder countries

- New contracting dropped significantly for Japan, Korea and China from 2015 to 2016, in line with global decline in new orders
- For the same time period, EU experienced an increase in contracts

24-Nov-2017



Newbuilding contracts by ship type

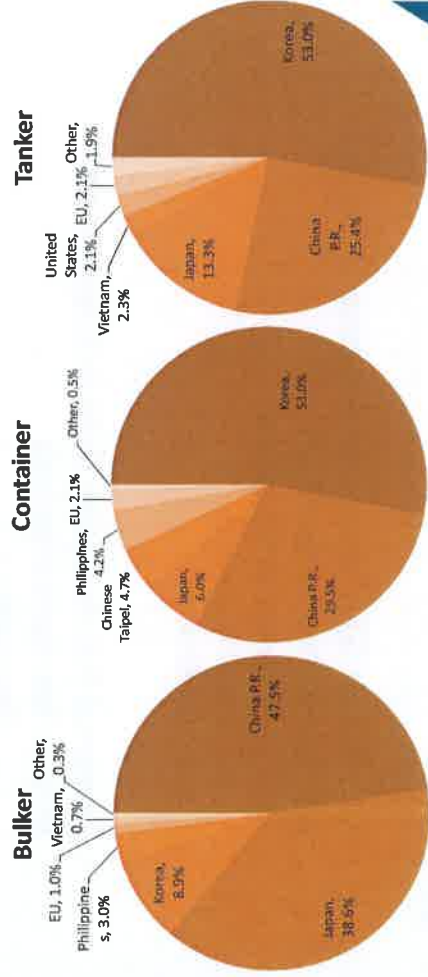


Source: OECD calculation based on data from Clarkson World Fleet Register, quarterly data, three quarters moving average
24-Nov-2017

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Market shares by ship type (2016)



Source: OECD calculation based on data from Clarkson World Fleet Register

24-Nov-2017



Non-deliveries

- Non-deliveries (deliveries after scheduled date) at 32%
- Indication of market inefficiency
- Further research desirable

24-Nov-2017

6

4. Cruise Ships – Producers by cgt

- Largest builders by country are Italy (32%), Germany (23%), France (18%) and Finland (18%)
- Fincantieri (31%) and Meyer Werft (20%) largest builders by company
- Meyer Werft Papenburg (19%) and Fincantieri Monfalcone (15%) largest yards
- Order book also reflects these figures

Source: OECD calculation based on data from Clarkson World Fleet Register, numbers refer to the entire cruise fleet currently in service as of October 2017.

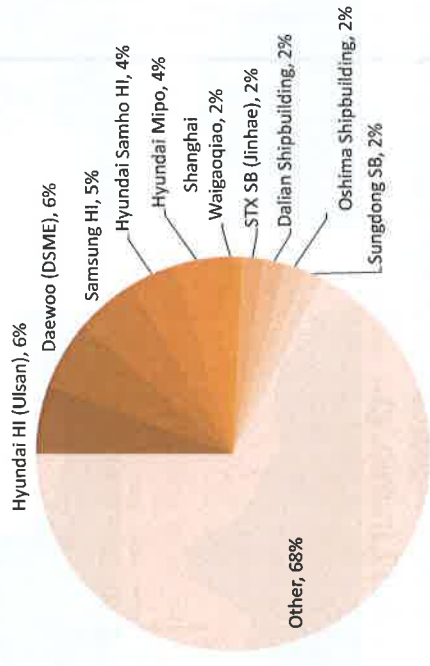
24-Nov-2017

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Source: OECD calculation based on data from Clarkson World Fleet Register, deliveries between 2012 and 2016

Largest Yards

- 6 yards account for 1/4 of cgt delivered



4. Cruise Ships

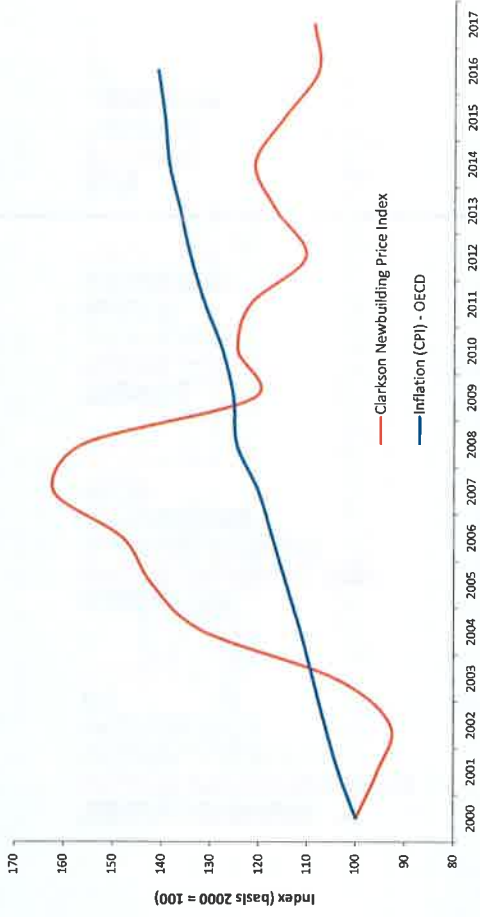
- Continuous growth and positive market expectation for demand of cruise tourism (2005 to 2015: 62%)
- Growth also reflected in cruise ship orders: Increase from 1.1m cgt (2012) to 2.8m cgt (2016)
- High value added sector dominated by European shipyards

24-Nov-2017

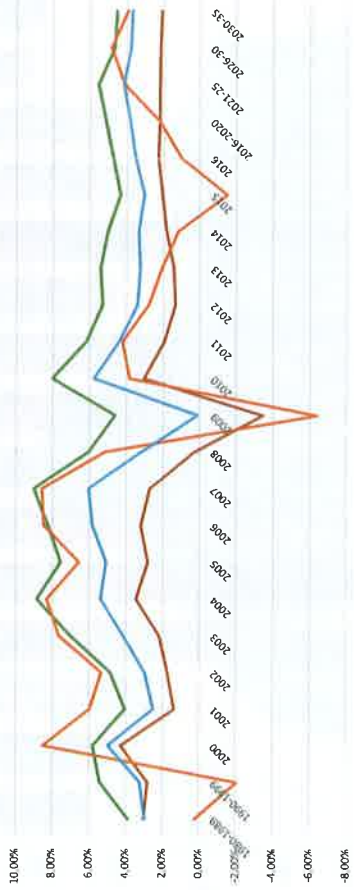
24-Nov-2017

Thank you.

Newbuilding Price

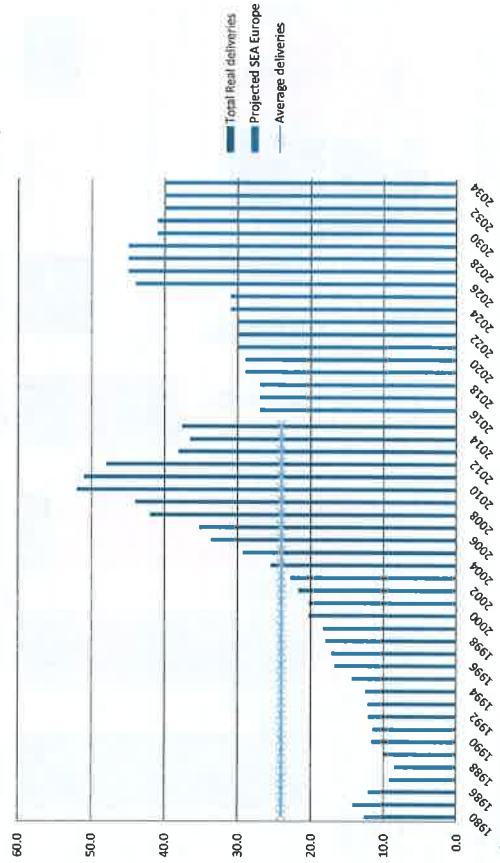


World Economic Growth 1980-2035 (pct. p.a.) in PPP (Base Case)

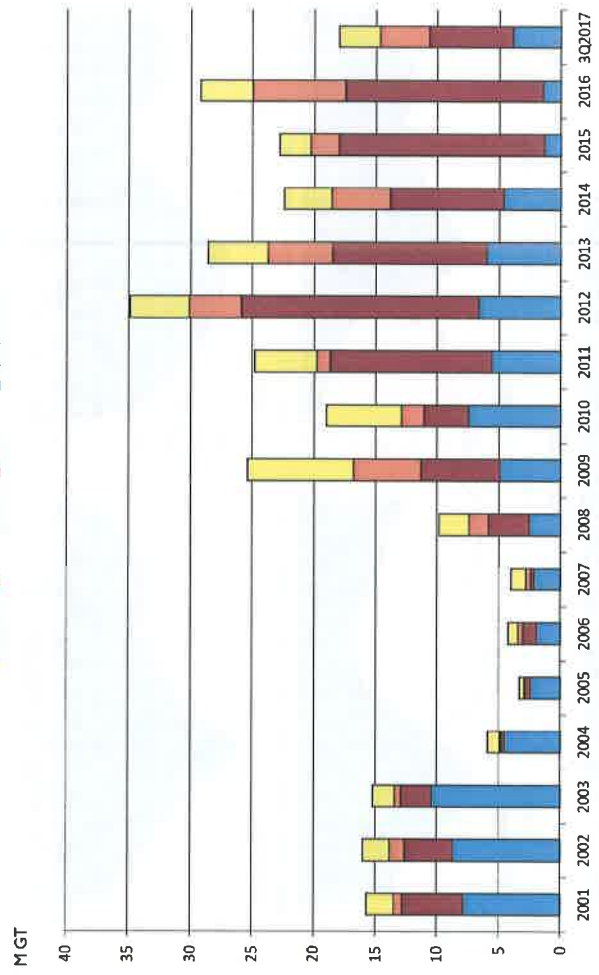


Forecast Summary

Newbuilding Requirements - Actual + Forecast (in mill. CGT)



Demolition Sales



1. Convincing statement & Conventional theory

● **Convincing Statement:**

Market distorting activities would result in slow recovery of the shipbuilding market to a healthy level.

● **Premises for conventional theory of demand analysis:**

- ✓ Ships will last for considerable time with proper maintenance.
 - ✓ Ship's performance will be enhanced as the time goes by; older ships becoming unable to compete with new ones.
 - ✓ Ships could be sold for further trading.
- >>> could link to ordering of new ships, if it economically makes sense for owners.

2. Owners decision for replacements

INVESTMENT < EARNINGS + COST SAVINGS

- ✓ Likely **investment** cost = (sale of the old ships) – (earnings)
- ✓ Prospect of **earnings** vis-à-vis competing ships in the market
- ✓ **Savings** from operation due to newly introduced features



Analysis on how distorted market would affect sustainable growth of shipbuilding market

Hiroshi (Dave) Iwamoto
The Shipbuilders' Association of Japan

OECD WP6 | Paris | 21 November 2017



INTRODUCTION TO THE DISCUSSION ON THE SSU AT THE 21 NOVEMBER WP6 MEETING

Session 9. SSU – Latest developments

Paris, 21 November 2017

Contact: Structural Policy Division,
Mr. Laurent DANIEL,
Mr. Kei ITO.



WP6's role regarding the SSU

- SSU article 10a) : “a) The Sector Understanding shall be reviewed annually or upon request by any Participant within the context of the OECD Working Party on Shipbuilding, and a report made to the Participants to the Arrangement.
- Mandate of the WP6 : “the Participants to the Sector Understanding on Export Credits for Ships (which has been incorporated as an Annex to the Arrangement on Officially Supported Export Credits) retain responsibility through the WP6 for that Understanding, in co-operation with the Participants to the Arrangement on Officially Supported Export Credits”

3. Incentives of fuel-saving technology are limited in volatile markets

- Fuel-saving technologies were the drive for newbuilding orders for the past years. It is doubtful whether other technologies were of comparable level of importance because the gains were relatively small.
- Although efforts continued, the importance of fuel-saving technologies depended on the oil prices.
- Market prices of certain ship types have changed drastically, implying that fuel-saving technologies could only have limited incentive in the roller-coaster market. Conversely, ship's initial price is the dominating factor for shipowners.
- Distortion of market prices will inevitably end up in damping other shipowners' drives to order newbuildings.



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4. What is happening these days?

- **Rush of rules & regulations for safety & environmental protection**
In such situation, requirements are coming to the level that there are only limited advantages for shipbuilders to show their expertise.
>>> Effective way to win the deal: Reduce ship prices
- **Negative effects spreads to financial market**
“LOAN TO VALUE”
If newbuilding prices go down, so will value of trading ships, may create a mismatch between mortgage value and market value.
>>> Investors' attention will turn away.

Conclusion: Ships bought at cheaper prices are too good assets for shipowners and these would long remain a nuisance for recovery of the market.



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ITEM 9 C WP6 SECRETARIAT – DISCUSSION FOR POSSIBLE INCLUSION OF MOBILE OFFSHORE UNIT IN THE SCOPE OF THE SSU

Document: C/WP6(2017)17

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division

Mr. Laurent DANIEL, Laurent.DANIEL@oecd.org

Mr. Kei ITO, Kei.ITO@oecd.org



Preliminary discussions on amending the SSU

- At its April 2017 meeting, the WP6 agreed:
 - to continue monitoring closely the work of the IWG and suspension of the IEG and
 - to have a more in-depth discussion on article 2a) of the SSU.
- At its November 2017 meeting, the WP6 is invited:
 - to consider starting discussions on possible amendments of the SSU. Accordingly, Participants to the SSU which are not WP6 members have been invited.
 - to decide whether to continue the suspension of the IEG.



Background

- At the 124th WP6 meeting, some delegates asked the Secretariat for clarification on the interpretation of the last sentence of article 2 a) of the SSU
- Last sentence of article 2 a) of the SSU:
 - “...*Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the “Participants”), after consideration of substantiated requests by any Participant, may decide that they shall be covered.*”



Potential amendments of the SSU for discussion

Secretariat’s proposal following discussions at meetings of the WP6 and of the Participants to the Arrangement :

- 1) Inclusion of CIRR provisions of the Arrangement in the SSU
- 2) Inclusion of Mobile Offshore units in the scope of the SSU (already envisaged in the SSU)

Last sentence of article 2 a) of the SSU: “...*Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the “Participants”), after consideration of substantiated requests by any Participant, may decide that they shall be covered.*”



Possible amendment of the SSU to include MOUs in its scope

2. SCOPE OF APPLICATION

This Sector Understanding, which complements the Arrangement, sets out specific guidelines for officially supported export credits relating to export contracts of:

a) Any new sea-going vessel of 100 gt and above used for the transportation of goods or persons, or for the performance of a specialised service (for example, **mobile offshore units**, fishing vessels, fish factory ships, ice breakers and as dredgers, that present in a permanent way by their means of propulsion and direction (steering) all the characteristics of self-navigability in the high sea), tugs of 365 kw and over and to unfinished shells of ships that are afloat and mobile. The Sector Understanding does not cover military vessels. Floating docks **and mobile offshore units** are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the "Participants"), after consideration of substantiated requests by any Participant, may decide that they shall be covered.



Thank you.



ITEM 10: DISCUSSION OF 2018 OUTPUTS AND INITIAL DISCUSSION ON THE PWB FOR 2019-20

125th session of the Council Working Party on Shipbuilding (WP6)
Paris, 21 November 2017
Document C/WP6(2017)15

Contact: Structural Policy Division,
Mr. Laurent DANIEL, Laurent.DANIEL@oecd.org
Mr. Kei-ITO, Kei.ITO@oecd.org
Ms. Karin GOURDON, Karin.GOURDON@oecd.org



Agenda

- Selected outcomes of yesterday's workshop
- 2018 Outputs
- Initial discussion on the PWB for 2019-20



Possible agenda items at the 15-16 May 2018 meeting

1. WP6 Instrument Review
2. 2018 Inventory of support measures
3. 2018 report on measures taken by countries not participating in the Inventory
4. Policy developments
5. Market developments
6. Global value chains
7. Role of finance in the shipbuilding industry
8. Possible amendments of the SSU
9. Possibly a workshop on policies taken by shipbuilding economies impacting the shipbuilding industry could be organised back-to-back with the WP6 meeting, to which China would be invited.

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WP6 Instrument Review: proposed road map

- Following the discussion at the 21 November WP6 meeting, the Secretariat will prepare a brief document, including:
 - Key elements to be discussed of the prospective Instrument presented in an holistic way, including:
 - The objective (and how it differs, if at all, from existing objectives);
 - The scope of policy measures/settings for consideration; and,
 - The legal nature of the instrument.
 - As requested by China this document will seek to illustrate the necessity, expected output and achievability of the elements to be discussed in the context of the negotiation of the new Instrument.
 - A draft version of this document will be sent to WP6 delegates by 8 December
 - Delegates will be invited to send their comments on this document by 26 January 2018. These comments will be posted on the WP6 Clearspace.
- The Secretariat will then produce a revised version for rapid approval by the Bureau, taking into account comments received. The Secretariat will contact relevant Chinese ministries to organize meetings and formally invite China to participate in the negotiation of the new shipbuilding instrument.
- Depending on China's reaction and the guidance of the WP6 Bureau
 - The Secretariat will prepare the corresponding background documents for the 15-16 May 2018 WP6 meeting
 - Following the proposal by Japan, a workshop on policies taken by shipbuilding economies impacting the shipbuilding industry could be organised back-to-back with the WP6 meeting, to which China would be invited.

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Selected outcome of the workshop on Green growth of maritime industries

- Session 1. International efforts by IMO and private initiatives both play a large role in promoting greener ships.
- Session 2. National policies significantly affect shipowners' decisions on how they comply with regulations; drive maritime industries towards sustainable development.
 - Enforcement/timing has to be kept in mind when drafting regulations (BW)
 - Various technologies to comply with regulations (Scrubbers, use of LNG as a fuel, Propeller design, Drag reduction by air layer below ship, ...)
- In sessions 3 and 4, we heard views from the shipping, shipbuilding, repair, machinery industries and financiers.
 - International regulation should be implemented in a predictable manner
 - First attempts for autonomous and electric shipping
 - The collaboration between these industries would be a key factor to foster green growth of maritime industries.
 - Currently available technology can already reduce the emissions by tonne mile by 20-30% for GHG and by 100% for Sox and NOx
 - Interesting discussion how to take into account the value of environmental innovation for financiers and other stakeholders
 - Fast growth expected for offshore wind (bigger turbines and farms)

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WP6's programme of work in 2017-18 (C/WP6(2016)8/REV1)

Priority	Output	Brief output description	Related output result (Annex C)
1	E	Reviews of the major government policies encouraging the construction and operation of "green ships"	1 (1.1)
2	B	Two surveys (annual inventory) of support measures to the shipbuilding sector	1 (1.3)
3	C	Two reports on support measures in countries not participating in the WP6 Inventory	1 (1.2)
4	A	Peer reviews of two shipbuilding economies (to be determined)	2 (2.1)
5	J	One analytical report on the effect of local content requirements and other trade barriers	1 (1.4)
6	F	Two reports monitoring the situation of excess supply and capacity and providing policy recommendations	2 (2.2)
7	K	One analytical report on global value chains and cross border activities in the shipbuilding industry	2 (2.3)
8	I	One analytical report on the role of finance in the shipbuilding industry and the impact of new financing forms on the industry's development	2 (2.4)
9	D	Maintenance of the Sector Understanding on Export Credits for Ships (SSU) and updates on export credit developments in the shipbuilding industry	1 (1.5)
10	L	One analytical report on trends in ship recycling industry and demand forecast of ship dismantling	2 (2.5)

Projects in 2017

Projects in 2018

Ongoing projects



1

Local Content Requirements Description

About Local Content Requirements (LCR)

- A non tariff measure (NTM) that requires domestic industries to source a specified percentage of intermediate goods/supplied services locally.
- Fiscally neutral way to promote domestic industry and employment during times of stagnating or falling demand.
- Creates incentives to the development of industries by protecting domestic markets against free imports of goods.

Local Content Requirements Effects of LCR - Empirical evidence

Grossmann (1981) in perfectly competitive markets:

- Suboptimal allocation of resources, reducing efficiency, increased prices, decline in local production and welfare as opposite effects intended by LCR policy.



- Distortion of trade flows due to changes of the country's exchange rate, increase in costs of domestic production, and transfer of higher prices to consumers (Hufbauer et al. 2013).

1. Assuming that prior to the LCR each producer was free to choose from the most cost-effective source (whether, it be domestic or foreign). Thus, an LCR is a government mandated decision to choose a less efficient supplier with higher costs than foreign suppliers due to lower technological levels.

2018 Inventory of support measures

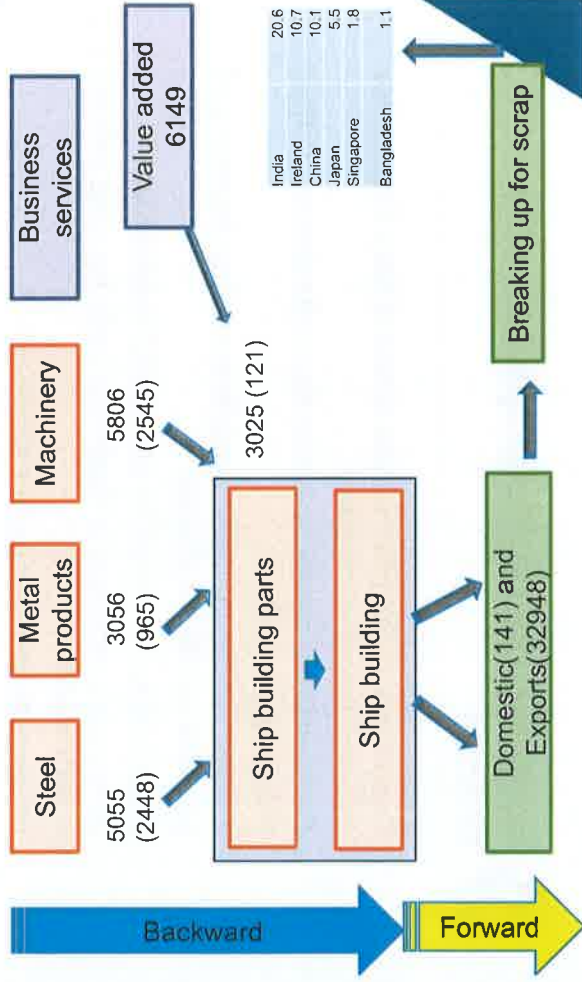
- Schedule :
 - Questionnaire sent to Inventory participants Dec.17
 - Implementation of the new questionnaire (C/WP6(2017)19)
 - Inventory participants review and update their inventory entries by end of March 2018
 - Presentation by the Secretariat and discussion at the May 2018 WP6 meeting
- Previous submissions stored here: <https://community.oecd.org/community/inventory>

2018 report on measures taken by countries not participating in the Inventory

- Following the suggestions made at the April WP6 meeting : Additional efforts to:
 - Check and complement the collected information by notably contacting the countries under consideration
 - Take into consideration protectionist measures that indirectly affects the full maritime supply chain
- Use additional sources including the EU's market access database

Analysis of production networks (Steel ships, Korea 2014)

Billion KRW (of which imports)



Assessment of LCRs and subsidy schemes using TAD's Trade model

- Collaboration with **OECD's Trade & Agriculture Department (TAD)** and use of its computable general equilibrium (cge) model
 - Examination of impact of policy or other change (external shock) on the whole economy

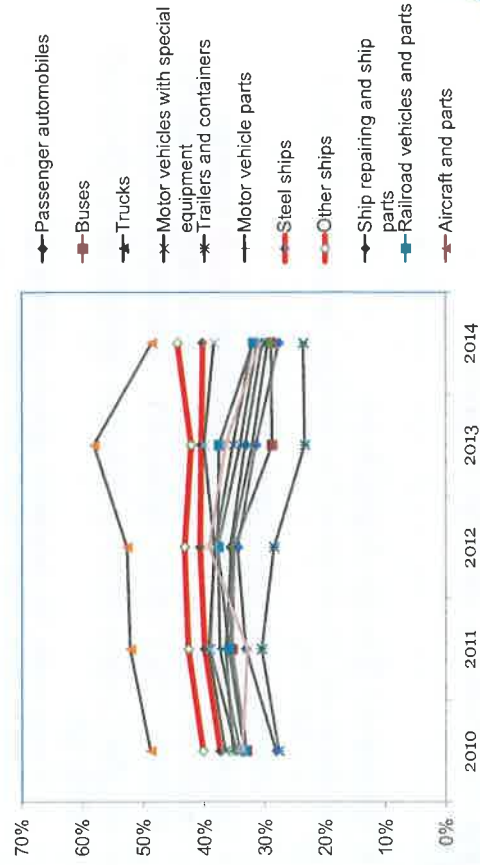
Selection of LCRs having potentially an impact on the shipbuilding industry:

1. **US** Jones Act (1920)
2. **US** Energizing American Maritime Act (2020)
3. **Brazil:** LCR in oil and gas sector (1999)
4. **China:** Scrap and build subsidy (2010)
5. **Russia:** Regulation on the use of ships for the exploration and exploitation of mineral and other inanimate resources (2007)

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National IO structure: Import contents share of exports



Source: Bank of Korea, Input-Output Table

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Global value chains in shipbuilding

- Source : presentation by Norihiko Yamano and Ali Alsamawi, OECD Directorate for Science, Technology and Innovation at the 18-19 April WP6 meeting

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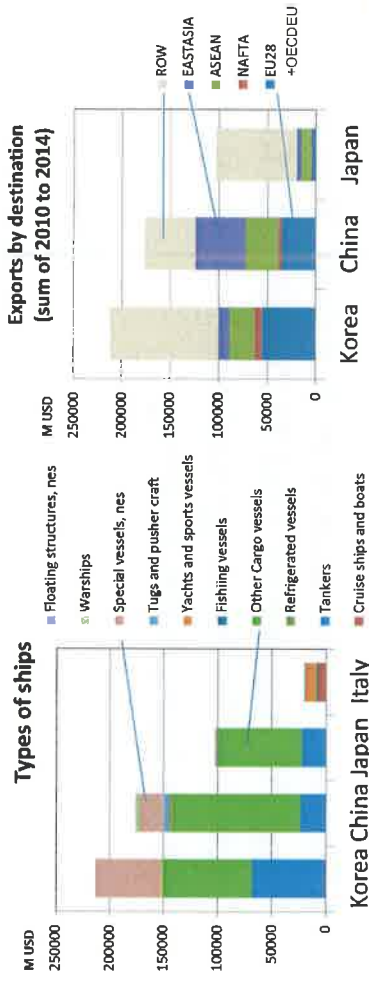
Summary of first results

- Increased foreign dependency
 - Domestic VA sustained by foreign demand; and exports per total VA
 - Foreign contents in steel production
- Shipbuilding industry has relatively **high** foreign content and is **more** dependent on foreign economic demand than other transport equipment industries
- Further extensions to enhance quality of ICIO-based analysis:
 - Disaggregate the shipbuilding sector (ISIC3-351) from total other transport equipment (ISIC3-35)
 - e.g. Australia, Germany, Japan, Korea, Mexico, United States, China, Philippines and Thailand
 - Transactions of scrap and changes in inventories

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Exports of ships by type and destination (selected major exporters, 2010-2014)



15



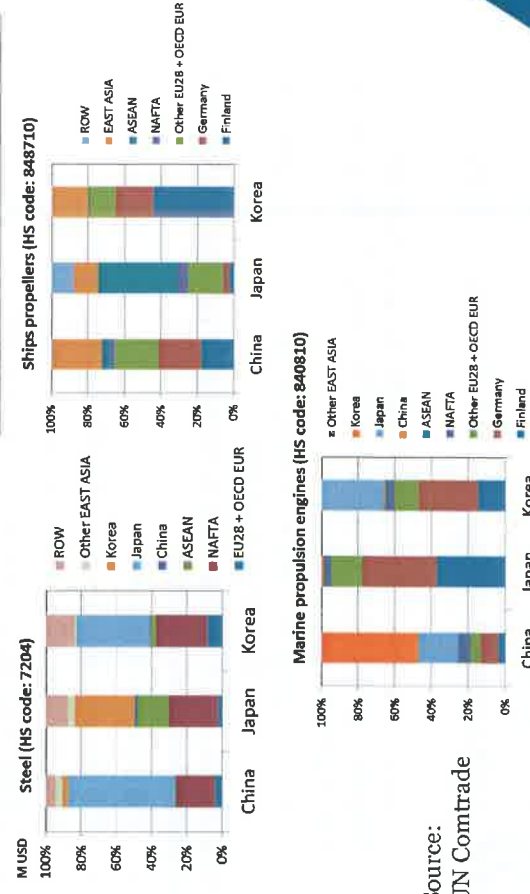
Suggestions on the project on ship finance

- Panorama of the practices in terms of ship finance for selected major economies
- Difficulties of banks linked to the write-downs of their shipping portfolio
- Analysis of the current regulation on ship finance and possible needs for change
- Ship finance as a tool for competitive advantage
- New needs in terms of financing tools for ship owners / shipbuilders
- Finance targeting greener shipping
- Do you know some experts interested to contribute to the analysis & report and/or to the discussion when the report will be presented?

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Imports of major supplies for shipbuilding



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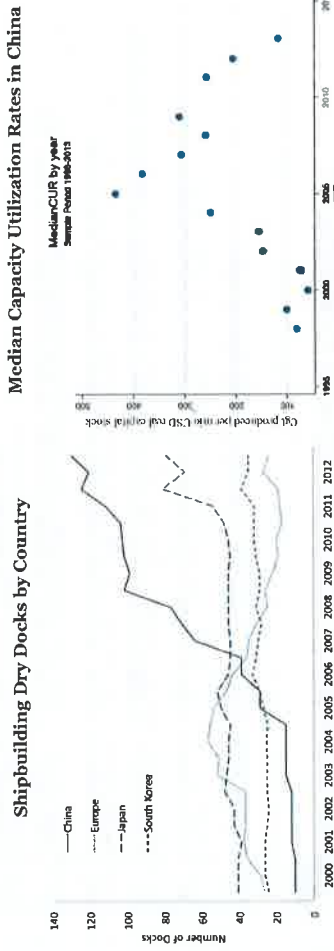
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Support of Yard Capacity

Example of China's 5 Year Plan:

- Expansion of capacity since 2006 (lhs in terms of number of docks) leading to a decline in aggregated capacity utilization rates in China since 2006 (rhs).



Source (lhs): Kalouptzidi (2017) Detection and Impact of Industrial Subsidies: The Case of Chinese Shipbuilding.
 Source (rhs): OECD based on NBS.
 Note: Capacity Utilization Rate is defined as production in CGT over capital stock in mio real RMB (i.e. capacity). Source: OECD based on NBS. Adjusted median cur is indexed with reference year 2005.



2018: The Role of Government Support & Regulations on Supply & Yard Excess Capacity

- Discussion of general factors promoting capacity and supply in the shipbuilding industry in OECD Report of 2016 "Imbalances in the Global Shipbuilding Industry and Policy Responses" [WP6(2016)6/FINAL]
- The project for 2018 would focus on policies impacting supply and demand activity.
- Understanding oversupply & capacity promoting government support and regulations for discussions at:
 - WP6's instrument review session
 - WTO Committee on Subsidies and Countervailing Measures (G/SCM/W/572; WTO seminar of October 2, 2017)



Scope of work (1/2)

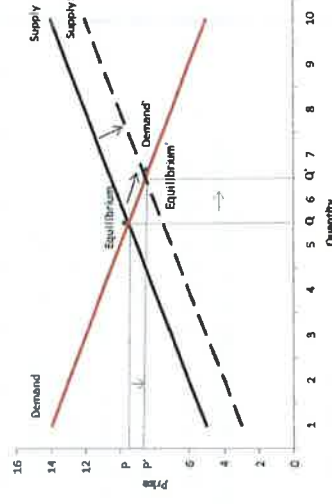
- Production Costs:** To what extent can lower production costs explain the decline in newbuilding prices and increase in supply?
 - Kalouptzidi (2017) found evidence that with China's intervention during 2006 and 2012 ship yards' production costs decreased by 13-20% (i.e. 1.5-4.5 mio USD) in the market for Handysize vessels.
 - Using annual financial accounting data (ORBIS and NBS) to analyse yards' production costs and financial stability across time.
 - Understanding determinants of cost shifters (i.e. yards' multi-factor productivity*, capital costs (e.g. investments), raw material/steel prices, capacity constraints, economies of scale, learning by doing).

*Multifactor productivity (MFP) reflects the overall efficiency with which labour and capital inputs are used together in the production process. In other words, if labour and capital inputs remained unchanged between two periods, any changes in output would reflect changes in MFP.



Economics of Government Support

- Support which decreases (in)directly production costs allows firms to offer lower prices stimulating demand and leading to higher output [supply curve shifts down].
- Support which decreases directly newbuilding prices leads to higher output [i.e. demand support: moving on the demand curve to the right].



- Negative externalities due to market-distorting practices:** other countries need to bear the disproportional share of firm insolvencies, lower capacity utilization, unemployment and other adjustment costs, including in the downstream sectors.



Preparation of the discussion on the next WP6 PWB

- Delegates are invited to discuss policy objectives and outputs for 2019-2020 and a list of outputs to be prioritized by WP6 at the WP6's meeting in November 2017.
- Secretariat circulates a list of proposed outputs for "voting" by February 2018
- WP6 participants submit prioritised lists to the Secretariat by March 2018
- Secretariat circulates a draft PWB based on the prioritised output list and a proposed budget by end-April 2018
- WP6 participants discuss the draft PWB at the WP6's meeting in May 2018
- WP6 participants submit possible additions and deletions depending on the mandate discussion by end-June 2018
- Secretariat circulates (revised) draft PWB for written approval by July 2018
- (The WP6 PWB is then approved by the Budget Committee)

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Draft list of outputs to be prioritised

A	Peer reviews of two shipbuilding economies (to be determined)
B	Two surveys (annual inventory) of support measures to the shipbuilding sector
C	Two reports on support measures in countries non-participating in the WP6 Inventory
D	Maintenance of the Sector Understanding on Export Credits for Ships (SSU)
E	One report on policies encouraging construction and operation of "green ships"
F	Thorough revision of the WP6 instruments
G	Two reports on market developments in the shipbuilding and shipping industries
H	One report on state owned enterprise in shipbuilding industry
I	One report on monitoring yards activity and world shipbuilding capacity
J	Innovation in the shipbuilding industry and across the supply chain
K	One report on the potential impact of digitalization on maritime industries

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Scope of work (2/2)

II. Government support & regulation: What kind of government intervention promotes excess capacity and supply?

- Classification of support measures and their economic impact on, among others production costs, capital costs (i.e. investments, yard capacity), entry costs and exit costs (e.g. bail-out, financing schemes), demand.
- **A broader scope:** A comparative analysis of insolvency procedures across countries using World Bank's WDI Insolvency index on duration of insolvency proceedings, insolvency costs as % of estate, recovery rates and strength of insolvency framework.

24/11/2017



SSU

- New discussion on the proposed amendements of the SSU
 - Inclusion of provisions related to CIRRs
 - Inclusion of MOUs in the scope

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Background

- The following mandates expire on 31 December 2018
 - the Council Working Party on Shipbuilding (WP6); and
 - the Informal Expert Group on the Sector Understanding on Export Credits for Ships (IEG)
- Under the OECD Rules of Procedure, the WP6 must send a proposal to the OECD Council to renew the WP6 mandate before this date

24-Nov-2017

Thank you.

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Current mandate of the WP6 since 2013

- To work towards and assist governments in the reduction of factors that distort normal competitive conditions in the shipbuilding industry and designing and implementing policies that foster normal competitive conditions.
- The intermediate objectives:
 - Increase transparency and improve the understanding of the shipbuilding market, including supply and demand, economy-level policy settings, and international and inter-industry linkages;
 - Contribute to a business climate that enables growth and innovation in the shipbuilding industry.
- In order to achieve these objectives, the WP6 will:
 - Keep the shipbuilding industry under review;
 - Consider the economic, social, environmental and other relevant conditions that impact on the global shipbuilding industry;
 - Develop policies that assist in the reduction of market distortions, and which account for globalisation and enable structural change; and
 - Seek to foster the active participation of major Partner shipbuilding economies in the work of the WP6.

24-Nov-2017



ITEM 14 RENEWAL OF THE WP6 MANDATE – INITIAL DISCUSSION

Document: C/WP6(2017)12

125th session of the Council Working Party on Shipbuilding (WP6)

Paris, November 21, 2017

Contact: Structural Policy Division,
Mr. Laurent DANIEL: Laurent.DANIEL@oecd.org
Mr. Kei-ITO: kei.ito@oecd.org

Questions regarding the WP6 mandate:

- Is the current WP6 mandate (ANNEX A) relevant and does it adequately reflect the main issues of WP6 members?
- Has the mandate facilitated work of high quality and impact? If not, why not, and how could this be improved?
- Can/should the mandate be made clearer or more precise about the work of the WP6? How? Which potential new areas of work could be included in the WP6 mandate?
- How could the mandate be changed to enhance the WP6's relevance to key non-WP6 members with significant or growing shipbuilding industries?
- How could the mandate be changed to support greater interaction and co-ordination with other OECD bodies or external actors to explore and address industry issues?
- How could the WP6 mandate take into account the ongoing revision of the WP6 instruments?

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Questions regarding the IEG mandate

- Should the SSU Participants restart a discussion on possible revisions of the SSU? If yes, should these discussions be carried out in the framework of the WP6 or in the IEG?
- Should the IEG's mandate (ANNEX C) be renewed? If yes, how could the mandate be revised and improved and why?

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Current mandate of the IEG since 2013

- The IEG works under the direction of the Participants to the SSU, through the Council Working Party on Shipbuilding (WP6), in co-operation with Participants to the Arrangement on Officially Supported Export Credits.
- Primary works of the IEG;
 - Premia, minimum interest rates, scope and ship types.
- Other issues required to make the SSU a modern, standalone and WTO-compliant agreement, including, *inter alia*:
 - Purpose and coverage;
 - Possible matching clauses;
 - Information requirements;
 - Reporting and notification requirements;
 - Monitoring and review; and
 - Provisions relating to entry into force, transitional arrangements and withdrawals.

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Proposed procedure and timetable

- Delegates will be invited to share their views on the renewal of the WP6 and IEG mandates at the November WP6 meeting.
 - The delegates are invited to provide first input at the 125th WP6 meeting or in writing after the meeting by 12 December 2017
- The Secretariat will synthesize the views put forward by WP6 members and other stakeholders prior to and during the November 2017 WP6 meeting.
- The Secretariat will circulate a draft revised mandate for the WP6 as well as a revised mandate for the IEG in early 2018 and the WP6 will be invited to send written comments.
- A revised draft proposal, taking into account WP6 comments, will be submitted for consideration by the WP6 at its meeting in May 2018.
- Following approval by WP6, the Secretariat will prepare a draft Resolution on the WP6 mandate, for submission to the OECD Council for its consideration and approval.

24-Nov-2017



Thank you.

24-Nov-2017



