an efficient sub-contractor network. Looking ahead in particular to the extension of the Directive to new sectors, the Committee regards such action as of key importance.

3. Lastly, the Committee wishes once again to draw attention to its proposal [1] concerning the introduction of a system for secondment of staff (e.g. senior officials of procurement and audit departments) from national authorities for the purpose of working in the new public procurement unit and liaison with their counterparts in other Member States. It is out of the question for the Commission's staff at its present strength to cope with the duties on which the effectiveness of the Community Directive hinges and, since difficulties are bound to arise in simply recruiting new staff under the Community budget, other solutions such as the one described above will have to be found.

4. Specific comments

4.1. *Article 4*

The Committee requests that point 2 (b) of the new Article 6 stipulating that contracts by single tender may be awarded 'when the articles involved are manufactured purely for purposes of research, experiment, study or development' be deleted; otherwise the doors would be opened wide to abuse and circumvention of the letter and the spirit of this Article, i.e. that awards by single tender only take place under exceptional circumstances.

4.2. *Article 5*

The Committee invites the Commission to make it clear that the order of preference to be followed by the contracting authorities in the absence of European standards or documents on harmonization is mandatory, not optional. It proposes to add the following phrase to point 4 'any other standard': 'bearing in mind the climatic conditions involved'.

4.3. *Article 12*

The Committee, though supporting the Commission's efforts to obtain significant and reliable statistical information from the Member States, feels that the Commission should specify in point (a) which contracting authorities are obliged to report, and that the data required concern only the total number and value of awarded contracts both above and below the threshold.

[1] OJ No C 189, 28. 7. 1986, p. 16.

Done at Brussels, 16 December 1986.

The Chairman
of the Economic and Social Committee
Alfons MARGOT

Opinion on the proposal for a Council Directive on aid to shipbuilding [1]

(87/C 68/07)

On 13 October 1986 the Council decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Economic Community, on the proposal for a Council Directive on aid to shipbuilding.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 December 1986 in the light of the report by Mr Arena.

At its 242nd plenary session (meeting of 16 December 1986), the Economic and Social Committee adopted the following opinion by 88 votes to 15, with 5 abstentions.

Introduction

1. The draft Directive on shipbuilding aid is a follow-up to the orientation paper on future aid strategy for shipbuilding on which the Committee was not officially consulted – much to its astonishment. The proposals contained in these documents arouse deep concern about the future of the Community's shipbuilding industry and the jobs it provides.

[1] OJ No C 281, 7. 11. 1986, p. 4.

1.1. It is regrettable that the Commission has not taken the slightest notice of the Committee's opinion of 23 April 1986 on the guidelines for a Community policy in the shipbuilding sector (OJ No C 189, 28. 7. 1986). This opinion, on which the interested parties broadly agreed, pinpointed the need to:

— define a minimum production capacity on economic and strategic grounds;

— frame a clearcut policy, involving Community-wide agreements, for safeguarding the industry's productive capacity in order to combat the frequently distorted competition from other countries;

— tailor the post-1986 Directive to the aims of such a policy in order to revive an industry which has been far too long in the grip of a recession that could have dire consequences for the workforce and professional skills.

1.2. In reaffirming that this opinion still holds good, the Committee trusts that the present text will fare better. The reasons why it cannot approve the draft Directive are explained below.

Comments

2. Instead of proposing a system of aid for safeguarding a shipbuilding industry restructured along the lines indicated in the abovementioned Committee opinion of 23 April (a line which the Association of West European Shipbuilders has also argued), the draft Directive makes aid policy the *sine qua non* and mainstay of shipbuilding policy without seemingly giving adequate thought to the effects and consequences.

2.1. More restrictive and selective aid — in the form of a common all-embracing ceiling fixed at a lower level — is assumed by the Commission to be the key to eventually creating a healthy and competitive shipbuilding industry in the Community in which the Member States will freely compete with each other.

2.2. The fixing of such a ceiling seems to the Committee to be at the very least an oversimplification. Above all, it will have adverse consequences for a large part of the Community's shipbuilding industry unless it is fixed at a high enough level to ensure that adequate support is provided to enable Community yards to compete against the competition from the Far East. The Committee believes that, at least for an interim period while further studies take place, the ceiling must be at least 35 %.

2.3. In the absence of a masterplan for the industry, which ought to be drawn up before a system of aid is worked out, one general question which may be asked is on what criteria the new strategy's regional and social repercussions (including its repercussions on subcontracting industries) are based, unless the aim is purely and simply to cut capacity and jobs in order to scale down the financial burdens currently borne by the Member States.

2.4. Last April's opinion explained why capacity cutting was not the same as improving productivity or the industry's competitiveness, since any plan for reviving the industry would be doomed to failure unless adequate use was made of production potential. In other words, it is necessary to arrest the inexorable slump in capacity, and hence production, which has already reduced the Community's shipbuilding industry to a minor force worldwide.

2.5. The assessment of market trends underlying the draft Directive seems to rule out any chance of demand picking up in the next decade. This assessment is at odds with the recently confirmed forecasts of organizations such as the Association of West European Shipbuilders (AWES) and the Shipbuilders Association of Japan (SAJ) which would seem to be in the best position to judge (cf. Table 2 in the 23 April opinion).

2.6. The importance of forecasts should not be overestimated; however it does not seem right to disregard the AWES/SAJ forecasts, which state that the crisis will reach its peak in 1986/87 and that balance will be restored on the world market by the early nineties, regardless of whether there are any further large-scale reductions in capacity.

2.7. In this connection, the Community authorities must act firmly in dealing with Japan (which seems, incidentally, to be about to take a number of important decisions about the size of its shipbuilding industry) and South Korea (whose share of the market has rocketed since 1975).

2.7.1. At all events it is very unwise to think that cuts in aid and productive capacity in the Community will strengthen the Community's hand in negotiations with Japan and South Korea: the cuts made in the last years which have resulted in the loss of at least 120 000 jobs (i.e. 60 % of the

workforce and a 55 % fall in capacity) are proof enough of the Community's good will. It is estimated that there have been similar cutbacks in subcontracting work, i.e. all the suppliers of goods and services which contribute more than 50 % of a vessel's value. The regional and social repercussions of these major cuts are also evident.

2.7.2. If the Community gives Japan and South Korea the assurance that it will pursue the aid policy being proposed at the moment, they will merely have to maintain current prices and not make any major cuts in capacity (i.e. basically adopt a wait-and-see policy) to ensure that the Community prices itself out of the shipbuilding market to all intents and purposes. The building of advanced technology vessels — a sector where the competitive gap is less pronounced — will in fact provide insufficient orders even for a much smaller Community shipbuilding industry.

2.8. If this were to happen, there would be a real danger — in the absence of a more wider-anging policy of aid and cooperation between Member States — that national industries (whose shares of the world market vary from less than 1 % for Belgium to 5—6 % for the Federal Republic of Germany) may soon be driven to bankruptcy since they have very little work at the moment and are unable to win new orders.

2.8.1. The Committee believes that the objective of the Directive should be to avoid this happening; instead, it should stress the need to maintain within the Community a healthy and competitive shipbuilding industry whose scale of activity should be consistent with the size of the Community seaborne trade and respect its economic, social and strategic importance.

2.9. The draft Directive's other objective — and one which the Committee endorses — is to develop the common market in shipbuilding. It must be borne in mind, however, that shipbuilding is a worldwide market. Therefore, if aid is not granted, there is a danger that any order lost by a Community shipyard is likely to go to a non-Community and not to another Community shipyard.

3. The fixing of a common ceiling on all forms of aid to shipyards and shipowners for the building or conversion of vessels poses other grave problems.

3.1. A ceiling which leaves no room for flexibility would make sense if there was a reasonable chance that a significant number of shipyards would soon become as competitive as the most competitive shipyard. However, because of a number of differences (cost of money, social security charges, progress made in restructuring, regional location, etc.) more time may be needed to reduce costs and restore competitiveness. Thus, the ceiling should be high enough to win sufficient orders at the start and should be reviewed at reasonable intervals taking account of trends on the market. The rate at which the aid is reduced will depend above all on conditions on the market, where the behaviour of Japan and South Korea will be crucial.

3.2. Equally worrying is the criterion for fixing the aid ceiling. This ceiling will be based solely on the costs in the one area of the market selected by the Commission (advanced technology vessels) where the most competitive Community shipbuilders do not lag so far behind their main worldwide competitors).

3.3. It should be noted here that the only really advanced technology vessels being built nowadays are military vessels, passenger ships, and certain offshore installations and (to a rather lesser extent) gas and chemical carriers. This is too limited a market (excluding as we must here the military part) to rest the future of the Community's shipbuilding industry on. Moreover, it is the parts which the shipyard purchases from outside that are the key factor in the added value of the product. Hence the importance of maintaining a sufficiently large and specialized subcontracting industry. This is one of the strengths of the Japanese, who have always seen the ship building industry as an important export vehicle (what is more, not subject to customs duty) for a number of products with a higher added value (electronics, pumps, on-board auxiliaries, engines, etc.).

3.3.1. A final point to bear in mind are the rapid developments in vessel design. Thanks to the ease with which technologies can be transferred, new vessel designs (e.g. container ships) can soon become the prerogative of less 'advanced' shipbuilders.

3.3.2. Despite the move towards specialization in products with a higher added value it would be a serious mistake to stop building the types of vessel (bulkcarriers, tankers, most general cargo ships) for which there is most demand worldwide. Any of these types of vessel might suddenly make a strong market recovery. Nor should we underestimate the (partly strategic) role of these ships in the supply of raw materials, and more generally their importance for trade to and from the Community.

3.4. A final cause for serious concern is the inclusion of aid to shipowners in the proposed ceiling (Article 3 of the proposal). The extreme sensitivity of the shipowners' sector — which by definition operates on an open market — to restrictive measures could lead to practices detrimental to the Community shipbuilding industry. The tonnage of virtually

all the Member States' fleets is already falling, and average vessel age is already high: these trends would worsen.

3.4.1. At all events a serious assessment should be made of the repercussions which the inclusion of aid to shipowners would have on recourse to the shipyards of the Far East (where *inter alia* OECD conditions are being systematically disregarded) and to flags of convenience, as a move to regain more room for manoeuvre.

4. Leaving aside other albeit important comments on the content of the Directive (such as the exclusion of ship repair work from operating aid and investment aid), it is important to stress the omission of any reference to additional rescue aid to deal with an urgent problem confronting an undertaking of particular strategic or regional significance.

4.1. The Committee would also stress the extreme complexity of the proposed monitoring procedures. While recognizing the need for appropriate monitoring by the Commission in order to ensure that the aid regimes are transparent, the Committee thinks that, in both number and detail, these procedures would give the Commission powers of control without precedent in any industrial sector covered by the Treaty of Rome; this would undoubtedly impede company management, particularly during the delicate stage of commercial negotiation. Just one example: the Commission would be empowered to pass judgement (within 30 days) on the awarding of an order, even if this order had been negotiated to respect the ceiling, in cases where there was competition from a shipyard in another Member State (Article 4 (5)). The proposal further states in Article 4 (3) that 'in its review of the common maximum aid ceiling the Commission shall also take into account undue concentrations of shipbuilding activities in specific market segments to an extent contrary to Community interests'.

Done at Brussels, 16 December 1986.

5. **Conclusions**

5.1. After just six months, the Committee sees no reason to amend its previous opinion, which was based on an analysis of trends in the market, in shipbuilding, and in the Community's fleets, and of the policy pursued by the Community in this sector since the beginning of the crisis.

5.2. Apart from its disappointment (voiced in point 1.1 above) at the Commission's disregard of this earlier opinion, the Committee is also perturbed at a draft Directive being pushed through somewhat hastily which does not contain an overall policy for the sector dealing with the problems of concern to both shipbuilders and maritime transport and based on an effective match of supply and demand.

5.3. This concern receives immediate confirmation in the Commission's own predictions in COM(86) 553 final about the regional and social effects of the new aid policy, namely that another 40/45 000 jobs will be lost within the next three years. This amounts to a further halving of the industry's capacity — although by then it could hardly be termed an industry at all.

5.4. The scale and gravity of the problem would seem to call for consultation of the Committee, as it formally requests.

5.5. Extension of the fifth Directive would appear to be necessary in order to provide time to map out a realistic policy for the sector which, whilst recognizing the need for restructuring, would establish once and for all the basic requirements for the safeguarding and proper operation of this vital industrial activity. This matter ought to be discussed at Community level by the interested parties (shipbuilders, shipowners, workers' representatives).

The Chairman
of the Economic and Social Committee
Alfons MARGOT