Targeted consultation

SEA Europe – Summary

3 December 2020

The predominant types of foreign subsidies, including the countries that grant them, are:

State fundraising, i.e. below-market financing from state banks, low-interest loans and guarantees with preferential terms, debt forgiveness, government-mandated equity infusions and conversions (e.g. equity swap), low-interest bond issuance, transfers of funds to cover operating losses (*China, South Korea, Russia).*

Subsidies and non-monetary support to adjacent industries (e.g., steel, oil, electricity and real estate) that translate into reduced costs for domestic shipbuilding companies (*China*).
Loans to non-creditworthy enterprises or loans to insolvent enterprises without a restructuring plan which ensures genuine reduction of production capacities (*China, South Korea).*

SEA Europe has characterised the distortion caused by foreign subsidies in the following way:

Foreign subsidies enable a foreign shipyard to engage in predatory (below cost) pricing to attract orders from e.g. EU customers (ship-buyers) for vessels destined to operate predominantly or exclusively in the EU (e.g. ferry ship).

In the last decades, European yards have gradually lost entire ship market segments (as well as technical competences and capabilities) to Asia as a result of aggressive Asian – State-led and supported – competitive distortions.

Although Europe's maritime equipment still captures a significant pie of the world market for shipbuilding supplies including the markets in Asia, the sector's market share has been declining in recent years whereas the one of notably China's as well as South Korea's supplying industries have been on the rise

SEA Europe strongly favours taking legislative action at EU level. According to SEA Europe, there is a major regulatory gap: shipbuilding is not covered by TDIs (amongst others, ships are not "released into free circulation", which is a key requirement for the imposition of TDIs).

The nature of the maritime technology sector and its current state call for the urgent adoption of a sector-specific solution, to be adopted in a close coordination between DG COMP and DG TRADE.

A major overhaul of existing EU sectoral Regulations (e.g. activation of a revised EU Regulation 2016/1035, based on elements from the WP's Module 1 but adapted to the specificities of the industry

- see SEA Europe submission to public consultation of the White Paper on Foreign Subsidies) would be the preferred avenue for SEA Europe to address foreign subsidies in shipbuilding.

In the absence of it, however, effective sector-specific measures and remedies tailored to the maritime technology industry should form part of the new EU tool on foreign subsidies.

The Commission should have exclusive competence for investigations and enforcement (close coordination COMP and TRADE).

Social impact of potential new instrument: it would stop the loss of capacity and potential growth as well as job losses for shipbuilders in coastal regions of the EU.

Environmental impact of potential new instrument: The distortions caused by foreign subsidies have led to very low global profitability – including downstream (i.e. lower freight rates for ship operators/shipowners due to vessel overcapacity). This is severely hampering the sector's investment capacity to uptake environmentally friendly technologies required to comply with climate policy goals . This is a classical market failure which has been caused by subsidisation.

Administrative burden: SEA Europe shared the concerns about the practical feasibility of Module 3 ("ex ante" notification of potential foreign subsidy for bidders in public procurement procedures), as voiced by other stakeholders, and referred to the more detailed position and recommendation expressed inter alia by AEGIS Europe.

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