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COUNCIL
WORKING PARTY ON SHIPBUILDING

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Summary Record of the 124th Session

18-19 April 2017
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COUNCIL WORKING PARTY ON SHIPBUILDING (WP6)
SUMMARY RECORD OF THE 124TH SESSION

Paris, Tuesday 17 April 2017

The Chair welcomed the participants and presented the items to be discussed at the meeting. Furthermore, the Chair read the statement of confidentiality.

Item 1 Adoption of the agenda **[C/WP6/A(2017)1/REV1]**

1. The Chair mentioned two items to be added to the agenda under item 4.2: Vietnam will present latest policy developments, and Japan will reply to questions submitted by Korea. The agenda [C/WP6/A(2017)1/REV1] was adopted by WP6 delegates including these two additions.

Item 2 Approval of the summary record of the 123rd session **[C/WP6/M(2016)2]**

2. The Summary Record of the 123rd Session [C/WP6/M(2016)2] was adopted by WP6 delegates.

Item 3 Supply and demand analysis

Item 3i - Presentation by Mr. François Cadiou (Barry Rogliano Salles - BRS)

3. **Mr Cadiou** presented the main findings of the 2017 BRS Annual Review on shipbuilding capacity cuts. He highlighted the rise of China from 2000 onwards, the boom years, notably 2007 with 5,500 newbuilding contracts and the decline in newbuilding afterwards. He mentioned that capacity reductions have already started to take place although the exiting yards are rather small. In the next 2-3 years, he believes that yard capacity will be reduced by 50% in Korea, 20% in Japan and 30% in China.

4. **Japan** commented on the reasons why the estimated reduction in Japan's capacity is lower than those in Korea and China explaining that during the shipbuilding boom in the early 2000s, Japanese shipyards did not massively extend their capacity. Japan also asked about the status of closed yards and whether or not this category includes dormant yards which have a possibility to restart production. The **Secretariat** asked about the capacity estimations based on steel volume and the measurement approach.

5. **Mr Cadiou** agreed on Japan's comment of modest capacity expansion during the boom years, and noted that that Japan established joint ventures and block factories in foreign countries, *e.g.* in China also to avoid expanding capacity but in the same way find new outlets in order to reduce shipbuilding costs. Also he answered that closed yards are those that are definitely closed, but there are also yards under bank or court control in certain countries. He also addressed the comment on capacity, stating that steel output is a standard benchmark for ship production but this approach has also its difficulties as two ships with the same steel content could have very different prices (e.g. a merchant ship and a cruise ship).

6. **Danish Maritime** commented that in the calculations no cgt measurement has been used and this system could provide the advantage to take into account the different ship types. Mr **Cadiou** answered that

90% of ships produced are merchant ships (bulker, tanker, containers) and a tiny fraction are special ships that is why the cgt system was not used. He emphasized that dwt would not be an appropriate benchmark.

Item 3ii - Update by the Secretariat on the report [C/WP6(2016)6/REV1] on Imbalances in the Shipbuilding industry

7. **The Secretariat** presented the two comments received, notably on the approach to measure capacity and on one graph on domestic orders. **Danish Maritime** suggested using a longer time frame similar to the one followed by the OECD in the past. In particular, Sea Europe mentioned that the capacity of the 1980s and 1990s will very unlikely be revived but capacity of the early 2000s could easily be reused, therefore the previous approach would provide a better picture about the capacity situation in the industry.

8. **Japan** commented that it does not seem appropriate to make significant revisions just before the finalisation of the report and some more analysis may be needed to believe that the new methods are precise so it may be a good idea for the Secretariat to carry out that analyse in the future. With regards to the importance of this report to the shipbuilding and shipping industry, Japan could support its declassification. **Turkey** commented that the marine equipment industry is an important part of the shipbuilding industry. Therefore, Turkey suggested including in Paragraph 35 of the report a reference to the marine equipment industry. Also, Turkey indicated that they would like to hear the opinion of the WP6 on including marine equipment as one of WP6's main topics because it could be relevant for explaining the market imbalances in the shipbuilding industry.

9. **The Secretariat** complemented the presentation by mentioning that the first revision of the report was discussed in the December 2016 meeting but the WP6 did not agree on its declassification at that time. The Secretariat has received additional comments from Korea, which are now included. And, delegates are invited to decide on declassifying this new version of the report. Furthermore, the Secretariat mentioned that marine equipment is in the scope of the WP6 mandate and it is possible to focus more on the maritime equipment in WP6 work. Delegates were invited to submit information and ideas on how this industry could be more included in the WP6 work. The Secretariat suggested including the two methodologies (i.e. the 15-year period and 3-year period) used in the report rather than a single measure. For the next report the WP6 could decide on which measure to use for future analyses.

10. **Japan** asked about the old graph about the tendency of Korean shipowners order to Korean shipyards in the report and what could be a possible explanation of this increase in the share of domestic orders on total national owners' orders from 2009 onwards. **Korea** mentioned that the revision of this graph should have been sent around to everyone for notice. The **Secretariat** explained that Korea suggested changing the graph as the Korean shipping industry is smaller than in other large shipbuilding countries, therefore the new graph provides the perspective of the shipbuilding industry. **Japan** accepted each graph in the new report but would like to know what could explain the increase in the share in 2009, as during this time the Korean shipping fund has been established, which could be a potential reason for this increase as it could have influenced ship owners' decision. **Sea Europe** suggested including Europe in the new graph and using a methodology of capacity calculation based on a five-year period.

11. The **Chair** concluded that the WP6 is in principle in favour of declassification and to include both methodologies in the report. The WP6 has the possibility to submit their comments on this report within the next 3 weeks. The Chair added that Europe should be included in the new graph on domestic orders.

Item 3iii - Update by the Secretariat on the project with China's Development Research Centre (DRC)

12. **The Secretariat** explained about the meeting in March in China and that the policy brief has been prepared for this project as well as that the relevant ministries and DRC provided their comments on the report. According to the Secretariat, the idea is to issue this brief during the summer and the final report should be released soon thereafter. The presentation provided an overview of the topics addressed in the report, notably on the problem of excess capacity in China and the need for the country's restructuring which would benefit the environment and increase productivity. The Secretariat explained that since many ministries were involved in this report its finalisation is expected to take some time. The Secretariat emphasized that the relationship that the OECD has established with DRC is excellent and the project will give some more insights into Chinese policies in these industries.

Item 3iv - Use and revision of the compensated gross tonne (cgt) system:

13. The **Secretariat** provided an update of the work on the revision of the CGT system. Following the request of several WP6 delegates at the last WP6 meeting to consult with experts to better understand the use of cgt in practice, the Secretariat developed an electronic questionnaire. In total, 11 answers were collected of which 3 from governments and 8 from industry associations. The Secretariat reported that according to the collected responses cgt is a measure that is often used in capacity related discussions. As per the level of aggregation at which countries use cgt more frequently, results confirm that cgt is mostly used to compare production of large aggregates at international and national levels as indicated in the formulation of its original purpose. With respect to the use that shipyards make of cgt, it is used as one of instruments to assess production requirements. The Secretariat successively presented the room document 2 on the establishment of an informal working group on cgt with possibly the participation of China.

14. Ms **Braat** provided an historical perspective of the cgt and its revisions on the basis of her involvement in two rounds of revision of the system. She highlighted that the original goal of the system was to have a measure to account for the work content of a ship and to compare different ship types as bulkers for example require a lot of steel work and less labour than other vessels types. The system was designed to compare large macroeconomic aggregates and not for measuring productivity.

15. **Turkey** expressed its support for the establishment of the informal working group with the proposed Terms of reference and highlighted the importance of establishing a common yardstick to measure capacity and to include new vessels categories. **Japan** asked whether China already confirmed its participation in the informal working group and the **Secretariat** responded that the interest was expressed during bilateral meetings in January and that the Chinese counterpart (MIIT) is expecting a formal invitation letter after the establishment of the group. The **EU** supported the creation of the group preferably with the participation of China. **Japan** raised concerns about the usefulness of establishing an informal working group when its purpose is to revise the cgt system along the lines of a light approach consisting in adding two coefficients for mega-yachts and offshore vessels thereby asking further clarifications on the purpose and scope of such group. The **Chair** suggested that the decision on the scope of the working group should be made by participating members or that alternatively the establishment of the informal working group will be decided upon a referendum once the terms of references are elaborated further. **Sea Europe** emphasised that the informal working group should focus on a light approach revising and introducing coefficients for cruise-ship, mega-yacht and offshore vessels and suggested that the meeting could take place back to back to the ISFEM meeting after the summer. **Germany** suggested combining the informal working group with the Global Forum on Steel Excess Capacity (GFSEC) given that China participates in the GFSEC and the topics are similar.

16. The **Secretariat** responded that the participation of China to the GFSEC was the result of a clear mandate from the G20, and that, in absence of such mandate it would have been extremely difficult to

bring China at the table. Moreover, the Secretariat noted that it would be rather peculiar to make the decision of establishing the informal working group conditional on the participation of a single economy. As a result the Secretariat proposed to set clearer Terms of reference, invite all major shipbuilding economies and make the establishment of the informal working group conditional upon reaching a minimum volume of production. Ms. **Braat** proposed to give the floor to the OECD at the next ISFEM meeting in Copenhagen to illustrate the purposes of the informal working group to the Chinese delegation.

17. The **Chair** concluded by summarising the agreement whereby major shipbuilding economies will be invited to participate in the informal working group and discuss its terms of reference so that a formal decision on its establishment will be discussed at the next WP6 meeting. Such decision will be guided by more information on the Terms of references as well as about the volume of production of the major shipbuilding economies who would have by then agreed in participating in the process.

Item 4 - Policy Developments

i) WP6 Inventory and report on support measures in other countries

Inventory: 2017 Update

18. The **Secretariat** presented the update of the WP6 Inventory [C/WP6(2017)4/REV1]. The Secretariat highlighted that the number of measures has been gradually decreasing since 2011. The volume of support also decreased except for measures in category E (export and home credits). **Japan** asked the Secretariat to include the summary of the support measures implemented so far in a table so that delegates can understand what kind of measures were taken in what kind of market situation.

Report on measures in non-participating countries in the Inventory

19. The **Secretariat** presented the background and goal of this document, notably that the WP6 agreed on compiling a list of support measures taken by the largest shipbuilding economies which do not participate in the Inventory. The Secretariat highlighted that this list is not exhaustive and the measures are only for discussion. It was mentioned that these measures could be potentially covered by the Inventory definition, but the descriptions of measures may be inaccurate or some may not have been introduced or may have since been rescinded. It was said that the list encompasses 14 measures in nine countries, notably nine measures in China, one in India, one in the USA, one in Brazil, two in France, one in Indonesia.

20. **Turkey** asked why the support measure in Indonesia mentioned in paragraph 50 was included. The Secretariat acknowledged Turkey's comment and agreed on excluding the measure as this import restriction does not count as a support measure to the shipbuilding industry in the scope of the Inventory definition. **Japan** appreciated the Secretariat's effort to collect the list of measures, and suggested contacting the countries to have a dialogue to get more precise information on the support measures found in the press. **South Africa** welcomed the presentation and asked in which way the information has been verified by the Secretariat, and if it is ensured that the sources are correct and reliable. The **Secretariat** thanked delegates for their comments and mentioned that it will try to verify the information also by contacting governments.

21. **Danish Maritime** suggested at looking into protectionist measures that indirectly affect the full maritime supply chain because free trade is the backbone of the shipbuilding industry. It recommended including also uprising countries in this industry. The **EU** mentioned the EU's market access database including several industries and it will be forwarded to the Secretariat.

A proposal to extend the WP6 Inventory coverage

22. The **Secretariat** presented options for possible improvements of the WP6 Inventory [C/WP6(2017)5]. The Secretariat proposed 4 options notably regarding measure C, D and G. It was highlighted that the objective of the Inventory exercise is to increase transparency, but definitions of measure C, D and G in the current questionnaire are insufficient to meet this objective as the decision on whether to report can be made in a different ways by each country. The options suggested were that: (i) the Inventory covers all credit supports, (ii) the Inventory does not cover if a private entity is the largest creditor (for loans) or the largest shareholder (for equity infusions); (iii) the Inventory does not cover loans/guarantees to shipyards with an interest rate higher than Commercial Interest Reference Rates (CIRR) (iv) the Inventory does not include measures only if both options 2 and 3 are applicable.

23. **Japan** supported option 2 mentioning that the option 1 may increase burden for delegates, and that option 3 and 4 may lead to include some confidential information such as interest rate, and hence may not be feasible, and that option 2 can be a basis for further consideration. **Korea** mentioned that the proposal on the improvement of the Inventory coverage could be efficient but could be a burden for some shipbuilding economies. Korea said that it needs more time to consult with relevant organisations internally. **EU** commented that the option 2 could refer to the "*de minimis*" rule for state aids. **Japan** commented that the information on "de minimis" rules should be presented at the next WP6 session since the delegates may not be familiar with it.

24. **Sea Europe** asked the Secretariat what would mean "favourable conditions" than those of commercially available support in the case that there is nothing commercially available, notably whether this case could be also commercially unfavourable, even if the terms and condition are in line with market conditions. The **Secretariat** answered that the identification of the commercially favourable terms and condition needs very detailed financial information on yards and it can be a discussion point at a later stage. The Secretariat highlighted the complexity of identifying favourable conditions, and therefore, the options to screen possibly favourable conditions are included in the proposal.

25. The **Chair** summarized that the WP6 will come back to the discussion on the possible improvement of the WP6 Inventory at the next session with the information inputted from the delegates.

Item 4ii Roundtable on policy developments

A proposal on a structured process regarding the questions and answers on policy development

26. The **Secretariat** presented options for developing a structured process for the Questions and Answers session [C/WP6(2017)7] on four elements including timeline, scope of questions, content to be included in the answers, and documents to be distributed at a WP6 meeting. It explained that if the proposal was agreed, the Secretariat will apply the procedure for the next Q&A session and afterwards.

27. **Korea** highlighted that it agreed on the timeline and deadlines on the submissions of the questions and answers. Korea disagreed that the answers should be necessary in writing as it could be a burden for delegations. Korea asked the Secretariat to clarify the meaning of non-confidential summary. **Portugal** asked the Secretariat whether the timeline in the document is in calendar days or working days.

28. **Japan** supported the procedure presented by the Secretariat and accepted the comments from Korea regarding the form of submissions if answers are to be explained orally since it may not be feasible to answer in writing for some questions. Japan asked the Secretariat to take note of the answers at the Q&A sessions in summary records. Japan suggested that the first sentence of the paragraph (c) should be moved

to the paragraph (b) as the countries which will answer to questions may not be in a position to include elements on the potential market distorting nature, and hence, questioning countries should submit if possible these elements to justify their questions.

29. The **Secretariat** answered about non-confidential summary which would allow delegates to provide confidential information in the form of an approximate figure for instance. Regarding the point raised by Portugal, the Secretariat explained that it is calendar day. The Secretariat also noted the comment by Japan regarding the first sentence of the paragraph (c) to be included in the paragraph (b).

30. **Korea** commented that the questions should not be limited to policy measures. Korea mentioned that delegates should be able to ask questions about general information such as shipbuilding market developments including developments in the areas of green ships and smart ships. In response to the comment by Korea, **Japan** showed hesitation regarding the scope of the items to be questioned in the Q&A session. Japan mentioned that there seems to be a common understanding on the scope of Q&A sessions. Japan also stated that if this session does not have a scope of questions this item could be very wide and then delegates may have some practical difficulties in collecting information because sometimes private companies do not want to share their sensitive information with the government. Japan highlighted that the mandate of the WP6 is to work towards the reduction of factors that distort normal competitive conditions in the shipbuilding industry and therefore this agenda item should focus only on policy measures. **Korea** mentioned that it wants to take this opportunity to ask questions about general information on future oriented issues such as green ships since it considered that the WP6 is not a group which should focus on developing regulation.

31. The **Chair** summarised that the WP6 can have a possibility to discuss market developments not at this Q&A session but at another agenda item on market developments. The **Secretariat** clarified that the proposal is to potentially constrain the scope of questions at this session on policy developments so as to allow delegates to frankly exchange on the status of new policies as discussion on market developments has a quite different nature. Therefore, the Secretariat suggested that the discussion on market developments would be in a dedicated session including presentations from government or industry representatives like at the OECD Steel Committee has done. **Korea** mentioned that the suggestion by Secretariat on having a separate session on market development is agreeable.

32. The **Chair** concluded that the Secretariat will prepare a revised document for the structured procedure for the question and answer session.

Presentation by Korea on questions received from other economies

33. **Korea** presented the answers to the questions submitted by EU and Japan. Regarding the questions submitted by Japan, financing to DSME was shown in a table including information on volume of loans, capital injections and debt to equity swaps by KDB and KEXIM since 2015. Korea explained that the decisions by KDB and KEXIM were taken with a view to minimise losses and to maximise paybacks as they are the largest shareholder and creditor of DSME. Korea also mentioned that KDB and KEXIM took into account the fact that DSME has the largest order book as of 2017, and hence, KDB and KEXIM see positive prospects on DSME's income which justifies addressing temporary liquidity shortages. Therefore, Korea thinks that the decision made by KDB and KEXIM is commercially viable. Korea then answered the 2nd question asked by Japan. Korea explained that the execution of the reported bailout plan has not yet been decided, stressing that KDB and KEXIM made their decision as creditors with no intervention by the government. Korea stated that creditors currently consider a voluntary debt restructuring and all creditors are involved in the decision making process.

34. Regarding the questions by EU, Korea explained that DSME is currently facing a temporary liquidity shortage due to an unprecedented sluggish shipbuilding market situation and major reasons behind DSME's liquidity problems are a heavy-tail payment scheme, intentional delay of delivery by buyers, and unfair contract conditions for offshore plants. Although DSME recorded operating loss of about KRW 1.4 trillion in 2016, Korea expects DSME will make profit from this year. Korea summarised that there is no government action, DSME's restructuring is based on self-rescue measures, and that all decisions are made by creditors based on commercial consideration. Korea presented the changes in market share in the shipbuilding market since 2009 and pointed out that Korea decreased its share while EU increased its share in terms of contract volume in cgt. Korea indicated that there is no clear evidence that DSME distorts the global shipbuilding market. Korea added that the level playing field cannot be ensured by looking at one company and that local content requirement policy as well as exchange rate policy should be taken into account. Finally Korea proposed that the WP6 focuses on future oriented issues such as green ships and smart ships and stressed the importance of encouraging emerging shipbuilding countries such as China to participate in the WP6.

35. **Japan** thanked Korea for the presentation and mentioned that it agreed on the points regarding the importance of China's participation and future oriented discussion on topics such as green and autonomous shipping; however, Japan stressed that this does not reduce the importance of discussing the establishment of a level playing field in the global shipbuilding industry. Japan referred to the discussion at the last session in which Korea expressed some concerns about Chinese policies notably on subsidies and asked Korea its views on the differences between China's support to Chinese shipyards and KDB's and KEXIM's finance to DSME.

36. **EU** thanked Korea for its presentation and agreed with the involvement of China in the discussions as overcapacity is a global phenomenon. EU mentioned that it has further questions on the presentation. Regarding a comment by Korea on the positive figure on EU's new building market share in terms of contract volume in cgt, EU replied that it is because European shipbuilders primarily focused on the cruise ship segment which was not affected by the crisis. EU pointed out that according to an article published on 27 March by *Korea Herald* the government clearly mentioned a rescue plan. EU stressed that the discussion on DSME's issue is not for the purpose of criticising but for the purpose of finding a solution for this global issue. **Sea Europe** stressed that this is the extreme case in terms of volume of market interventions which would involve USD 10 billion or more. Sea Europe also pointed out that the question raised by Korea on market distortions can be explained by the fact that DSME is the company which has the largest orderbook in the world. It raised a question on how the worst performing company in Korea has the largest orderbook. It stressed that the WP6 should focus on a common solution and not on blaming, but if the delegates doesn't understand the problems, it would be very difficult to find a solution, and therefore, the discussion on what is happening in Korea is a necessary step. Sea Europe mentioned that it is important to stop putting up smoke screens and trying to avoid the real essence, otherwise it would be very difficult to convince China and have a constructive solution for the future. Sea Europe stressed that the WP6 has no documented information although it has discussed transparency for a long time.

37. The **Secretariat** mentioned that the future work presented by Korea can be discussed in the context of the WP6 mandate review since it has to be revised by the end of next year. In response to the questions by Japan, **Korea** replied that it does not have sufficient information on China's policy, and therefore, Korea is not able to simply compare China's support to Chinese shipyards and KDB's and KEXIM's finance to DSME. On the question by EU, Korea explained that DSME's current problem is a temporary liquidity shortage and it still has the highest competitiveness in terms of technology and innovation. It also explained that there is also a problem on heavy tail payment schemes with requests by buyers to delay delivery of offshore plants. Korea stressed that the current crisis faced by DSME is basically caused by external reasons.

38. **Sea Europe** questioned how these external factors impact so much DSME and more than some other shipbuilders. **Korea** explained that one possible reason could be that DSME has been engaged in a lot of offshore plant projects including the largest offshore project and that explains the reason why DSME was affected much more than the competitors in the Korean market.

39. **Japan** highlighted four points; (i) the point that state owned banks could do everything under the name of creditors once the banks provide loans to a shipyard if Korea's justification would be accepted; (ii) the contradiction that while the government (Financial Service Commission) announced the second bailout plan in March 2017, Korea insists that the government is not involved in the rescue plan; (iii) the KDB's offer to National Pension Service to provide the repayment guarantees of the DSME's bonds; if KDB provides similar guarantees to private institutional bond holders in order to obtain agreement on the restructuring plan, the decision is based on the guarantee supports by KDB and not private initiatives; (iv) Recent new order contracts made between DSME and Hyundai Merchant Marine (HMM), in which KDB is heavily involved; KDB is the largest share in equity of both DSME and HMM and provides finance for the new orders through a shipping fund which is largely contributed by KDB and KEXIM. Japan suggested bringing these controversial issues into the context of the WP6 instrument review which should include both market and public disciplines and asked the Secretariat to sum up the discussion on DSME made at this and previous sessions so that delegates can identify discussion points to be brought to the instrument review process, which would not specify the name of companies. EU supported Japan on the procedures to bring this issue to the instrument review process.

40. The **Chair** summarised that it is necessary to move forward, as proposed by Japan and supported by EU, by working on the definition of the government involvement in more accurate manner and by summing up this discussion notably on where the issues are and where the disagreements are. It will be brought back to the next WP6 in the context of the instrument review. The **Secretariat** complemented that it will be able to invite a person responsible for SOE issues in financial affair directorate in the OECD and that the Secretariat will be able to sum up discussion points in this regard tomorrow at the item on instrument review and at the next meeting in more comprehensive way.

41. **Japan** mentioned that it would not like to repeat same discussions but would like to be informed by Korea what is going on in Korea since many important points in the presentation by Korea today were explained as "to be determined". **Korea** replied that it will be able to provide updated information if delegates ask questions. Korea stated that the one possible reason for taking so much time for the DSME's restructuring is because the government has not intervened directly.

Intervention by EU on questions received from other economies

42. **EU** explained that it has been dealt with DG competition and some of the points could not be disclosed in writing since the situation is still waiting for a court decision, but non-confidential summary is available on the website of the European Commission under the indicated numbers of SA.21233 and SA.34736. EU explained that the EC has adopted two decisions on the Spanish tax lease system in 2012 and 2013, noting that the lease decision focused on individual tax measures. In the 2013 decision, the Commission found that the tax lease system constitutes an illegal and incompatible aid in order to recover this aid from intermediate lease. In the 2012 decision concerning a new measure allowing the early start of accelerated depreciation, the Commission found that the new measure was qualified as a general measure and therefore it is not considered as a state aid. In particular, it is applicable to all types of leased assets irrespective of the origins, conditions, and logic of the tax system, and also, there are no provisions that would allow discriminatory or discretionary application of the early and accelerated depreciation measures to Spanish asset owners. The 2012 measure was approved because it is applicable to all companies subject to income tax in Spain irrespective of leased assets produced in any European economic area countries.

43. **Norway** asked a question to EU regarding the requirement on building countries notably on whether the ship owners which enjoy the Spanish tax lease scheme are able to order vessels everywhere in Europe or only in Spain. **EU** replied that the measure is applicable to all companies and all types of assets produced in EEA countries, but it is eligible only if they pay income tax in Spain.

Intervention by Japan on questions received from other economies

44. **Japan** explained that it received the questions last week and its answers will be very generic. Regarding the investments by Japanese shipbuilders, Japan replied that the shipyards thought that it is necessary to modernise their facilities to accommodate shipowners' needs for bigger ships and to catch up market changes. There are no government interventions as these expansions are all done by private initiatives, and hence, Japan does not have specific information. Japan mentioned that it needs to collect information from private companies in order to answer these questions. Regarding the second question on the justification of new investments in facilities under the overcapacity situation, Japan explained that overcapacity should be addressed on the basis of market mechanisms, which means that there should be no government support to investment and for poorly performing companies to survive. Japan also explained its basic understandings on overcapacity that as long as the market mechanism works, investment in a facility can be justified even if there is overcapacity. Regarding the third question, there is no official restructuring plan by the government, the restructuring totally depends on each company's decision, while some companies decide to reduce capacity, and some companies decide new investments for facilities.

45. **Korea** commented that it asked these questions to Japan because Korean shipyards recently have not invested in their infrastructure. Korea pointed out that the WP6 instruments stipulate that the WP6 member should refrain from taking measures which would help creating new shipbuilding capacity. **Japan** replied that Japanese shipyards did not invest in facilities in the shipbuilding boom in the early 2000s and now they need to modernise their facilities. The degree of expansion of the capacity is much smaller than in Korea and China in the 2000s. As pointed out by Korea sometimes investment is necessary to catch up with the market not to create overcapacity.

46. **Korea** stated that while the investment right after the financial crisis was not extraordinary, more recent investment seems bigger than usual. **Japan** replied that it does not understand why the investment by a competitive company without government supports is a problem as it thinks that it is a simple market function. Japan thinks that the situation in Japanese shipyards is quite different from what is going on in DSME which is financed by public institutions. **Korea** commented that the measure implemented in Japan after the first and second oil crises constitute best practices of measures addressing overcapacity and it thinks that sometimes government intervention could bring positive effect on overcapacity situation.

47. **Vietnam** presented the latest developments in the Vietnamese shipbuilding industry and relevant policies notably the master plan for the shipbuilding industry valid until 2030. In Vietnam, there were only state owned shipbuilding companies in the shipbuilding sector, but they were privatised. Currently the Vietnamese shipbuilding industry faces problems in terms of human resources, labour cost and financing. Vietnam showed its interest on international cooperation in the field of technology development.

Item 5 Green Ships [C/WP6/A(2017)8]

i) Effect of international regulations on the development of greener ships

48. **Mr Edwin van Hassel** (Antwerp University) provided an overview about his report [C/WP6/A(2017)8] discussing the implementation and evaluation of the EEDI. He showed that most of the vessels that just have been constructed fulfil already the 2030 requirements. Furthermore, the fuel consumption remained rather constant over the last 30 years, thus the design evolutions in particular for

container vessels did not help to improve fuel consumption. His empirical analysis showed that total CO2 emissions increased due to the growth in shipping capacity which was larger than the relative reduction of CO2 emissions per vessel. In conclusion, Mr van Hassel showed that two types of vessels can be distinguished, notably one vessel category for which the main design parameters have increased and those for which they have decreased over time. The EEDI policy as such is not strict enough to reduce the CO2 emissions in absolute terms in 2030.

49. **Poland** thanked for the comprehensive approach on the EEDI assessment, and appreciated the very informative conclusion that a lower speed requires more vessels to transport cargo which in turn leads to increased CO2 emissions by maritime transport. **Japan** asked whether the Common but Differentiated Responsibilities (CBDR) principle should be taken into account in the application of regulation or in another form. The IMO postulates equal treatment of flag holders in order to avoid reflagging to escape some regulations therefore Japan asked in which way a regulation can combine CBDR with this IMO principle. **Turkey** appreciates this informative document and asked what additional incentives the report proposes to achieve radical design improvements.

50. **Mr van Hassel** addressed Japan's comments by underlying that this report does not recommend any specific policy or principle but states that further policies are needed to complement the EEDI regulation. To Turkey's comment there are no specific suggestions to motivate these design improvements. Also Mr van Hassel mentions that ideally the entire ship life span should be analysed and not only the building phase, i.e. in the spirit of how will the vessel be operated and when will it be scrapped.

51. **Denmark** noted along the same lines of Japan that it was confused about the reference to the CBDR. **Norway** supported Japanese comment on CBDR in paragraph 11 in the abstract and wondered how this suggestion can be implemented without reflagging the vessel. **Sea Europe** stated that the industry has developed radical design improvements but the market mechanisms do not buy radical design changes (e.g. cargo submarines taking away wave resistance). No problem of technology but rather a cost and sale question as well as how to internalize these costs in the production. **Mr van Hassel** agreed on Sea Europe's comment and stated that transport becomes a commodity which competes only on price. He gave an example on a shipping company which mentions that its value added nowadays lies in data sharing, supply chain management etc. and it does not look only on ships which are simply based on price competition.

52. The **Secretariat** addressed the comments on the CBDR and mentioned that the Secretariat has introduced this part. In the Secretariat's opinion there are specific policy designs that address equal treatment of ships and reconciling it with CBDR which is a part of the climate change negotiations. The Secretariat suggested choosing a specific language that addresses the point of equal treatment of ships and equal treatment of countries. In addition, the Secretariat agreed that it is interesting to study examples of market based measures that lead to the adoption of radical technological improvements in other industries with a similar politically problematic landscape.

ii) Possible items to be discussed at the next WP6 workshop

53. The **Secretariat** presented possible items to be discussed at the next WP6 workshop and proposed “Green growth in maritime industries” as a possible theme for the workshop to be held on the 21st of November. The Secretariat thanked delegates for submitting answers to the questionnaire on green policies. The Secretariat explained that it will prepare a background document for the workshop including the analysis of the major government policies encouraging the construction and operation of "green ships".

54. **TUAC** mentioned that the scope of the workshop should include ship recycling industry and that it is very important to highlight the Hong Kong convention on ship recycling in the agenda of the WP6 workshop. **Japan** mentioned that the theme and items to be discussed at the workshop is closely related to

the Green Growth and Sustainable Development forum, and therefore, should be discussed at the agenda item 8 after hearing the presentation by the Environment Directorate.

55. The delegates agreed on having this discussion at the agenda item 8 tomorrow.

Item 6 SSU – latest development

56. **EU** explained that the latest IWG meeting in Brasilia was attended by 7 OECD economies and all BRIC countries. She said that various issues were discussed including the job description of the IWG's Secretary General, the scope of the shipbuilding guidelines, and maximum repayment terms. The IWG participants discussed on the scope including mobile offshore units as outlined in the descriptive table which was explained by Japan. The next meeting will take place in Washington DC late April 2017. The **ECG Secretariat** provided information on the discussion at the March 2017 meeting of the Participants to the Arrangement on the Officially Supported Export Credits. The discussion notably covered the three proposals made by ECG Secretariat at the 134th Participants meeting, which includes two technical issues and one broader issue concerning inter-relationship between the Arrangement and the SSU. The Secretariat mentioned that comments from Canada, the US, Japan and Norway were received, and two technical issues were to be discussed at the technical expert group (TEP) of the participants to the OECD Arrangement on export credits which will take place in June. The Secretariat stressed that while the SSU does not have a specific provision on premium and has a uniform maximum repayment term of 12 years the changes to be considered in the Arrangement would have no impact on the rules of the SSU. Regarding the broader issue concerning inter-relationship between the Arrangement and the SSU, the Secretariat explained that there is no consensus view and it can be discussed further if requested.

57. **Norway** mentioned that there are practical problems on export credits for the ships not covered by the SSU because the Arrangement is not suitable for transactions on ships. It also stated that the WP6 may also be able to look at possible changes of the SSU, because ships currently not covered by the SSU could be covered by the SSU. **Japan** explained that there are three tracks going on in terms of the export credit rules on ships namely the IWG, Arrangement Participants meeting, and the WP6. The IWG discusses both ships and mobile offshore units (MOUs) together as both of them have similar characteristics such as movable, large asset value and the necessity of large initial investment. On the other hand, the OECD takes a different approach as the SSU does not cover MOUs, and therefore, there is a gap notably in terms of maximum repayment terms of 12 years for ships and 8.5 years for MOUs, although they have similar characteristics. However it seems that there is no chance for the WP6 to accommodate MOUs in the SSU since the WP6 has decided the suspension of the IEG meeting. Therefore, the Participants meeting started to consider fine-tuning of the Arrangement to accommodate MOUs. Japan indicated that ships and MOUs should be dealt as similar products and raised a question whether to consider the amendment of the SSU to accommodate MOUs in the SSU.

58. **EU** asked the Secretariat to clarify the possibility to discuss on the revision of the SSU at the WP6 without reactivating IEG meeting. The **Secretariat (LEG)** mentioned that it would be possible to revise the SSU at WP6 if all SSU participants including two economies which are not WP6 members, are at the table. The **Secretariat (ECG)** made a clarification: the Arrangement Participants are not trying to amend the Arrangement to allow longer terms for the MOUs, it is rather for the purpose of clarifying the destination countries and risk countries in the Arrangement. **Norway** pointed out that the paragraph 2 of the SSU states that the floating docks and mobile offshore units are not covered by the SSU but the SSU Participants may decide that they shall be covered, after consideration of substantiated requests by any Participant. **Japan** asked for the clarification on the point just raised by Norway notably on the process to cover floating docks and mobile offshore units in the SSU in accordance with the text in the paragraph 2 of the SSU. The Secretariat answered that it would need an agreement between the SSU Participants on the inclusion of MOUs in the scope of the SSU and the amendment of the paragraph 2 of the SSU.

59. The **Chair** summarized that the WP6 decided to continue the suspension of the IEG and the Secretariat will be able to answer the questions from delegates thoroughly at the next meeting. The Chair also noted that the issue on the SSU could also be discussed in the context of the mandate renewal.

Item 7 WP6 instrument Review

60. The **Secretariat** presented the discussion points for the review of the instruments and explained the three main discussion points: participation of non-members, legal nature and substantial issues. The Secretariat explained the next steps: delegates are invited to answer the questions in the document [C/WP6(2017)8] in writing by 19 May 2017 and a summary of the Q&A sessions will be prepared. **Turkey** stressed that the new instrument should be legally binding preferably with the participation of non-OECD Member countries. Turkey supported the establishment of a negotiation group if necessary.

61. **Japan** basically supported Turkey's position and expressed that it supports the establishment of an ad hoc negotiation group conditional upon China's participation. It also mentioned that the WP6 needs to know what happened in the past regarding the Shipbuilding Agreement negotiation before deciding the legal nature of the new instrument, noting that the negotiation was terminated in 2010 because there is a gap which could not be closed. Japan asked the Secretariat to share information on the discussions at the past WP6 meetings notably on the points explaining why past shipbuilding negotiation failed so as not to repeat the same failure in this context. **Norway** asked the Secretariat to clarify which questions in the document should be answered as there are some independent questions regardless of China's participation.

62. **Korea** indicated that the participation of new emerging shipbuilding countries such as China and Brazil is necessary and the discussion on the legal nature has to be conditional upon China's participation. Korea showed its preference on not to have a legal binding instrument as it considers that the WP6 is not the party to regulate but to promote cooperation between member countries. Korea insisted that non-Members may be discouraged to participate if discussion on a legally binding instrument starts. **Sea Europe** supported the ideas presented by the Secretariat on trying to discuss a legally binding instrument and to involve China in this process. Sea Europe informed the WP6 of recent EU-China bilateral meetings that concluded that the recent deep problems in the global shipbuilding market cannot be solved thanks to bilateral discussions but through a global consensus. Sea Europe also informed the WP6 that China seems ready to participate in a discussion on this matter at the OECD. Sea Europa does not share the views expressed by Korea on the point that China may be discouraged to participate to the WP6 if a legally binding negotiation starts. Sea Europe highlighted that a study suggested by Japan on stumbling-block may be useful but the same stumbling-blocks may not necessarily hamper the WP6's actions today as the market has substantially changed between today and those days when the Shipbuilding Agreement was discussed. **EU** supported the idea to try to involve China in the discussions and to develop a legally binding instrument and mentioned that it needs consultation with the EU member states for the answers in writing.

63. Regarding questions by Norway, the **Secretariat** clarified that it would appreciate if delegates include answers to the questions with and without China's participation. Regarding the process, the Secretariat clarified that there will be two steps; (i) delegates submit answers to the questions mentioned in the document by 19 May 2017 and (ii) the Secretariat will send a formal high-level letter to MIIT to invite China in the negotiation on the instrument. Regarding the request by Japan and EU, the Secretariat confirmed that it will present discussion points in past negotiations and main changes in the market.

64. The **Chair** concluded that delegates highlighted the importance of China's participation, and at the same time the Chair mentioned that it would be important to explain to China what the WP6 intends to do. The Chair mentioned that delegates are invited to answer in writing to the questions in the document, and based on these answers, the Secretariat will send an invitation letter to China. The Chair also stated that at the next meeting a study, explaining why past negotiations failed and relevant discussion points

taking into account the recent market changes, will be presented.

Item 8 Discussion on ongoing and future WP6 projects

Presentation on on-going and future WP6 projects

65. **The Secretariat** presented ongoing and future work encompassing ship recycling (2017), excess supply and capacity (2018), local content requirements (2018), WP6 mandate renewal (2018) and OECD Ocean Economy Week. First, the presentation gave more insights into the ship recycling industry with major ship breaking countries which are Bangladesh (34% of total scrap volume in 2015), China (19%), India and Pakistan (each 21%) as well as Turkey (3%). It explained that 3% of global fleet is scrapped each year. Second, the presentation informed about the collaboration between OECD and Prof. Kalouptsidi from Harvard university to analyse the role of subsidies (and other policies) in the current overcapacity situation.

66. **TUAC** thanked the Secretariat for the comprehensive presentation and informed about its special websites on shipbreaking, which can be found by searching for industrial shipbreaking or campaign to clean up shipbreaking. These websites provide more information about the industry including two documentary films. The **EU** added that the obligation for the owners of EU flagged ships to recycle their ships at EU listed facilities will enter into force from 31 December 2018 onwards. **Japan** stated that probably this item is on the agenda as many EU countries are interested in the ship recycling industry and the reason why those countries are interested in it is because EU ship recycling regulation may create a new market for European ship recycling yards. Therefore, Japan suggested providing a forecast and economic analysis as well as a market assessment and how this industry will evolve rather than focusing on HSE standards and in this regards Japan did not support the work item 2 on the "Role and qualitative assessment of international and regional regulations". Finally, Japan added that the new trends in ship recycling practices may be beyond the expertise of this working group. For the work on supply and demand Japan is not sure in which way the database will be helpful to understand the shipbuilding industry. Japan added that information on yard productivity and firm dynamics will be very interesting, but it is not clear to Japan how this analysis will help to achieve the WP6 mandate on establishing a level-playing field. In general, Japan would like to prioritize work because the possibility of discussion of a legally binding instrument development was mentioned, and if that happens, the priority should be put on that work item.

67. **Sea Europe** supported the comment by Japan on ship recycling and stated that ship recycling is a very distinct industry sector compared to shipbuilding. Sea Europe stated that the polluter country principle applies where the operator needs to take care of recycling rather than the shipbuilder. Sea Europe referred to the case of nuclear power plant phase outs, where the energy company rather than the constructor of the plant pays for the phase out. In conclusion, Sea Europe considered this work as part of another working group rather than the WP6. **TUAC** supported that the economic assessment of ship breaking is an important aspect to be analysed and suggested analysing how the ship recycling industry can become a more sustainable industry and economically profitable. In TUAC's view the shipbuilding, shipping and ship recycling are related industries and it is important to understand the entire life cycle and to understand that the entire industry has the responsibility to ensure better working conditions and environmental standards. TUAC confirmed that many of the ship breaking facilities it has visited in the major recycling locations show very dangerous working conditions at the beach and it acknowledged that there are however also frontrunner facilities that have improved in economic and HSE terms.

68. **Poland** understood the concerns in the ship recycling industry. However it considered the shipbuilding and ship recycling industries as different industries and explained that shipbuilding is done at yards while the demolition is undertaken at scrapping facilities. **Germany** supported the views of Sea

Europe as this working party is on shipbuilding and not on ship breaking. Germany believed that there may be other forums to discuss these concerns in the ship recycling industry.

69. The **Secretariat** explained that the proposed project reflects the prioritization exercise of the PWB for this biennium by delegates and the project on ship recycling received support by the WP6. In this regards, the Secretariat will aim at defining an area of work that is consistent with the interest of delegates and the mandate of the WP6. The Secretariat provided an example on the end of life cycle regulations on automobiles and its effect on car design. Similar work could be done for shipbuilding to understand how ships should be designed in order to facilitate demolition (e.g. easy recovery of ship elements that have major implications on health and safety during breaking up). With regards to Japan's comment on supply and demand the Secretariat mentioned that work can be done under this item which is consistent with the WP6 mandate on establishing a fair competitive environment in the shipbuilding industry. In many cases, factors affecting the functioning of markets arise from policies. In this regards research can be done on how policy settings have implications for the shipbuilding industry, such as on yard productivity. Research questions could be "Why do unproductive yards stay in the business? Are there policy settings in the market that have an effect on productivity? Which policies result in less productive yards surviving?". This would address explicitly the WP6 mandate on establishing a fair competitive environment.

70. The **Secretariat** continued presenting the work on local content requirements (LCRs) for end of 2018; this work item is in collaboration with OECD's Trade and Agriculture Department by using its computable general equilibrium model. The presentation described a selection of potential LCRs to be analysed, encompassing the US Jones Act since 1920), US Energizing American Maritime Act (from 2020), Brazil's LCR in oil and gas sector (since 1999), China's scarp and build subsidy (since 2010) and Russia's regulation on mineral exploitation (since 2007). The Secretariat proposed some ideas on ship finance for the project for 2018, presented the timeline for the renewal of the WP6 mandate, which will start with a discussion paper on which the delegates can give their views during the November 2017 meeting. Finally the Secretariat provided more information on the OECD Ocean week where three events are back to back starting with the WP6 workshop, the Green Growth and Sustainable Development Forum (GGSD) and the Symposium on measurement issues for the ocean economy.

71. **Sea Europe** believed that the assessment of LCRs is very important and suggested also including supply chain local content issues. In addition, Sea Europe asked if it possible to analyse what are the finance instruments for domestic projects as well as what nations have offers for construction projects for domestic customers and during construction periods (which may not be covered by export schemes). **Norway** mentioned that the discussion at the export credit group is very narrowly defined and only related to export credits, but there are other ways of financing contracts that are outside of the export credit arrangement and which may be very important with regards to competitiveness. Therefore, Norway supported the project on ship finance. **Japan** asked about the difference between last year's report on ship finance by Mr Henri d'Ambrières and the proposal for 2018. The **Secretariat** explained that the previous work was rather descriptive and the new project is currently still developed. Even if the scope of both projects may be overlapping some parts of Mr d'Ambrières' report were not addressed in detail. Therefore, the new work could complete the report rather than working on a new scope.

Presentation by the OECD/STI Economic Analysis and Statistics (EAS) Division

72. **EAS** presented its work on global production networks of shipbuilding industry using harmonised industrial database. EAS presented one idea on how to present production networks in the context of shipbuilding in Korea to illustrate the work feasible to be conducted: these networks encompass the inputs (i.e. steel, metal products, machinery, and business services), shipbuilding and domestic production/exports. The example shows that some of the production is sold to the domestic market and

Korea exports most of its shipbuilding products. EAS explains that also the ship breaking industry can be analysed from the perspective of production networks.

73. **Japan** thanked EAS for this excellent analysis of the shipbuilding industry, and this work is very important to understand the global value chain and would like to ask EAS to continue this project. Japan asked about the countries that were mentioned as ship breaking destinations and the list is not in line with the common destinations and asked EAS to elaborate on these countries. **Turkey** asked on how EAS evaluates the role of financial services as an input in this analysis. **EAS** explained that the ship breaking destinations are based on Korea's export destinations of scrapped vessels directly received from Korea, while Pakistan and India will appear as scrapping destinations received indirectly from Korea via intermediate countries. EAS further explained that ownership of vessel and operating company can also play a role in this statistics as well as the statistics are based on monetary terms (i.e. values) rather than physical ones (i.e. tons). EAS agreed on Turkey's comment of the importance of financial services in this industry as part of business services.

Presentation by the Environment Directorate: Tasks Force for the 2017 OECD GGSD

74. **The Environment Directorate** (ENV) presented the annual green growth sustainable development forum which started in 2012 and which will take place on 21-22 November 2017 back to back with the WP6 workshop, and encouraged WP6 delegates to submit ideas on topics for sessions to the agenda they would like to address during the forum in terms of content and/or speakers. There will be three sessions encompassing living marine resources, non-living marine resources and ocean governance. **Japan** asked what will happen on Thursday and Friday of the Ocean Week. The **Secretariat** answered Japan's question by explaining that this conference aims at evaluating the ocean economy and builds upon previous workshops; more information will be available on the website shortly.

Discussion on the theme of November workshop

75. **The Chair** summarized that the workshop will be dealing with green ships as discussed the day before. **Japan** supported the theme on green ships, and commented on the possible items to be included in the agenda as mentioned page 3 in the room document; Japan mentioned that the suggested items include the impact of international regulations but Japan suggested adding other elements, such as autonomous shipping and utilization of digital technologies and to what extent such features contribute to greener ships. Japan also mentioned that IMO regulations are usually very technical and therefore the presenters and the Secretariat need to be very careful not to go into details of technical requirements because most of the attendance is unlikely to have background knowledge of technical requirements.

Item 9 Other business

76. The **Chair** mentioned the departure of Mr Tamura from his Vice chair position and thanked Mr Tamura on behalf of everyone for his contribution to the WP6 and wished all the best for Mr Tamura's future endeavours. Also the Chair explained that in the next steps a new vice chair should be elected by the WP6. **Mr Tamura** thanked the Chair for the kind comment and stated his pleasure to have acted as a Vice Chair and sometimes acting Chair of the WP6. Mr Tamura introduced his successor. **Japan** asked for a draft outline of the future work in order to provide inputs on the projects in particular supply & demand, ship recycling and ship finance.

Item 10 Future WP6 meetings

77. The Chair presented the dates for the next WP6 meeting, notably on Monday 20 November 2017 for the workshop and Tuesday 21 November 2017 for the WP6 meeting. The Chair closed the meeting.