

GENERAL DISTRIBUTION

OCDE/GD(91)168

MEASURES OF ASSISTANCE TO SHIPBUILDING

A description of the measures of assistance
to the shipbuilding industry
in force in 15 Member countries of the OECD
and the Republic of Korea

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1991

>

MEASURES OF ASSISTANCE TO SHIPBUILDING

The following report has been prepared by the Council Working Party on Shipbuilding. The Council decided its derestriction on the 1st October 1991. The report describes the countries' measures of assistance to shipbuilding as they were in force at the end of 1989.

TABLE OF CONTENTS

.....	Page	
BELGIUM		5
DENMARK		11
FINLAND		17
FRANCE		21
GERMANY		27
GREECE		33
IRELAND		35
ITALY		37
JAPAN		43
NETHERLANDS		57
NORWAY		61
SPAIN		69
SWEDEN		75
UNITED KINGDOM		81
UNITED STATES		89
REPUBLIC OF KOREA		95

BELGIUM

Introduction

The main shipyards were first restructured in 1982 and 1983. 1983 saw the bankruptcy of the NV Cockerill Yards at Hoboken. Over these two years, the number of jobs fell from 5,316 to 3,404 -- down by 36 per cent.

As there was still some overcapacity, a second restructuring became necessary (this time in the NV Boelwerf Yard at Temse).

In 1986-1987, the number of employees of NV Bolewerf was cut from 3,141 to 1,887 -- down 40 per cent.

In 1987-88, the workforce of the three medium-sized shipyards was also cut by 725 -- down 24 per cent.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing

No specific aid is planned for government purchasing and public procurement.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

Imports of materials and equipment for the construction, conversion, maintenance and equipment of sea-going vessels are exempt from customs duty.

2. Exemptions or rebates for indirect taxes on ships

Under certain conditions, sales of ships imported, built or repaired in Belgium are exempt from value-added tax.

3. Tax treatment of shipbuilding

There are no special tax arrangements for shipbuilding.

C. Finance for investments and research

1. Facilities for the equipment of yards:

Under the Acts of 17th July 1959 and 30th December 1970 on economic expansion and regional development, facilities may be granted to yards in the form of interest rebates and capital subsidies. This system is applicable to all industrial enterprises in Belgium. The amount of aids to shipyards were:

•	•	•	(BF million)	
•	•	•	1986 :	-
•	•	•	1987 :	1,833
•	•	•	1988 :	-
•	•	•	1989 :	-

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.

3. Contributions to research

Under the Acts of 17th July 1959 and 30th December 1970 on economic expansion and regional development, interest-free loans may be granted for developing prototypes, new products and processes in shipbuilding, among other sectors. The loans become repayable as soon as the prototype has been industrially produced or marketed at a profit. The amount of aid can be up to 50 per cent of the cost for research and development. This system is also applicable for all industrial enterprises in Belgium.

No interest-free loans were granted during the period 1986-1988.

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production:

•	•	•	(in millions of BF)	
•	•	•	1986:•	-
•	•	•	1987:•	66.5
•	•	•	1988:	64

Anticipated release of supplementary guarantees provided by a yard for the benefit of its clients with the view of the building of some vessels under the Act of 23rd August 1948. This anticipated release has been considered by the EEC Commission within the setting of the 6th Directive, as a direct production aid for 1987 and 1988.....

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation

In large-scale shipbuilding, the public sector holds 48 per cent of NV. Boelwerf's capital. The public sector also has a minority stake in the three medium-sized shipyards. There were no government expenditures related to this item in the period considered.

E. Export credit facilities

1. Provision of credits on favourable terms

Under Royal Orders No. 6 of 18th April 1967 and No. 51 of 24th October 1967, the Minister for Foreign Trade may arrange for government aid for exports of Belgian capital goods. The aid is in the form of a contribution to the interest charges attaching to the credit periods.

The interest subsidy is available for all capital goods and is not specific to shipbuilding.

The interest subsidies are in accordance with the OECD Understanding on Export Credits. However no export credit has been granted under the Understanding on Export Credits for Ships between 1987 and 1988. No special fund is available to extend specially soft export credit for developing countries.

2. Export credit insurance

The Office National du Ducroire has the ability to extend insurance against commercial and political risk for all sectors.

The premium is calculated for each contract (vessel or not) after taking into account such factors as the payment terms, the category of the debtor country, the legal status of the debtor, the nature of the guarantees eventually provided, the duration of the cover, etc. The premium is paid at once on the issue of the insurance policy. The Office National du Ducroire did not insure any transaction between 1986 and 1988 under the Understanding on Export Credit for Ships.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.

2. Home credit schemes

The Act of 23rd August 1948 is aimed at preserving and developing the merchant navy and sea fisheries, and includes provisions for a Shipping and Shipbuilding Fund. This Act does not include any obligation of ordering in Belgian shipyards but only the requirement that the ship operates under the national flag.

Under this Act, any Belgian enterprise owning merchant ships, fishing vessels, tugs and dredgers may receive the following under certain conditions:

- loans (80 per cent of the cost of the unit to be purchase or built);
- a government guarantee concerning the reimbursement of the loans granted to the enterprises by public credit institutions;
- an interest rebate (half, to a maximum of 3 per cent); and
- reimbursable financial aid.

In any case, a government guarantee is granted to cover the commercial portion of the credit. The government guarantee is limited to 18 billion BF. Neither a premium or collateral are required in order to benefit from this guarantee. The first mortgage on the vessel covers the total amount of the credit. In principle, no further guarantees are required.

Under the Act of 23rd August 1948 credits with low interest rates were granted for the following amounts:

		(in millions of B.F.)	
	Total home credits		of which for buildings in Belgian shipyards
• 1986	: 3,758	• • •	3,688
• 1987	: 6,846	• • •	3,690
• 1988	: 6,822	• • •	5,853

The total expenditures related to support for the home credit scheme are as follows:

		(in millions of B.F.)	
• • •	• 1986	:	334
• • •	• 1987	:	388
• • •	• 1988	:	370

3. Tax treatment of shipping

The allowed depreciation rates for ships and boats engaged in sea-going or domestic navigation are as follows:

1st year:	•	20 per cent
2nd and 3rd years:	•	15 per cent per year
4th to 8th year:	•	10 per cent per year

Accelerated depreciation described is only in force in the shipbuilding sector but applies as well for ships built-in Belgian yards or abroad.

4. Demolition and/or modernisation subsidies

Under the Royal Order of 29th June 1984, subsidies are provided for withdrawing trawlers definitively from fishing.

The trawlers may either be scrapped or transferred definitively to a non-EEC State or be used in EEC waters for other purposes than fishing.

5. Operating subsidies

The interest-rate subsidy provided for under the Act of 23rd August 1948 on loans to shipowners (see para. 2) for the purchase of ships abroad is regarded as an operating subsidy.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors

Most of the shipyards now in existence belong to groups covering several activities.

B. Development of new shipbuilding capacity abroad: Nil.

C. Inter-yard co-operation to meet market conditions

In mid-1987, two of the three medium-sized shipyards set up a new company to permit close co-operation at administrative and design levels.

DENMARK

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships:

Attention is drawn to the fact that the subjects in question are regulated by EEC rules. As a consequence Denmark is of the opinion that the EEC Commission alone is competent to answer questions on customs matters. Denmark therefore wishes to refrain from answering the abovementioned questions.

2. Import restrictions: Nil.

3. Government purchasing

The share of government purchasing in total Danish shipbuilding varies considerably. With the exception of naval ships only two purchases (12 millions DKK) from the Danish government have been placed at Danish yards in the period. Tenders are invited in the ordinary way for ships ordered by public authorities. Due to the fact that public authorities are not allowed to use credit facilities, there is no element of subsidy in purchases from Danish yards. Consequently such orders have been placed abroad.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

See Item I.A.1.

2. Exemptions or rebates for indirect taxes on ships

As far as indirect taxes are concerned, the Danish Statute on Value Added Tax allows zero-rating on sale and hire of ships of not less than 5 gross register tons, other than pleasure crafts.

3. Tax treatment of shipbuilding

Denmark does not have any specific rules regarding taxation of income from shipbuilding activities.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.

3. Contributions to research

Financial support is given by the government to institutes engaged in shipbuilding research. The support is granted on an annual pre-evaluation of the projects from the institute. The support provided for especially shipyards amounts:

•	••	(in millions DKK)	
•	••1986	∴	11.3
•	••1987	∴	6.6
•	••1988	∴	9.2
•	••1989	∴	7.8

Financial support has also been given to one project, "technological vessel", for a total amount of:

•	••	(in millions DKK)	
•	••1987	∴	16.6
•	••1988	∴	5.5
•	••1989	∴	2.0
•			

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.

2. Provisions or guarantees of finance on favourable terms

See Item E. and F. below.

In 1988 an official guarantee facility covering loans for ship building was granted to the B & W yard for a maximum amount of 275 million DKK. The granting of the guarantee was conditional on the fact that the ship was the very last ship to be built by the yard and that the board of the yard had made a final decision to close the yard and that the closing down had begun. Guarantee coverage was limited to a maximum of 75 per cent of the loan from the Danish ship credit fund financing the purchase of the ship. A guarantee premium was fixed.

For the period 1989 and 1990 the guarantee facility was made general, i.e. covering all Danish shipyards, on the same conditions and for a maximum amount of 1,000 million DKK. The amount of budget committed for the provision of guarantees was:

•	••	(in millions of DKK)	
••	Commitments	Actual payments	
•	1988• 275••	0	
•	1989• 1,000••	0	

3. Public ownership or participation

E. Export credit facilities

1. Provision of credits on favourable terms

Foreign buyers of newbuildings are furnished with export credits at terms as laid down in the OECD Understanding on Export Credits for Ships.

This loan is granted by the Danish Ship Credit Fund. Denmark's Skibskreditfond, a private body. It carries an interest rate of 4 per cent semiannually. The fund issues the loan in the form of bonds of a nominal value equal to the face value of the loan. The bonds carry a nominal interest rate of 4.00 per cent semiannually corresponding to the net interest rate charged on the loan. The bonds are quoted at the Copenhagen Stock Exchange, but the central bank, Denmark's Nationalbank, has agreed to purchase the bond from the buyer of the ship via the private banks at par value.

Through this mechanism export credits carrying an interest rate of 8 per cent per annum net of export credit insurance premium are issued.

Annual amount of ship export credit provided with government support:

(millions of DKK)

.... 1987:• 370
.... 1988:• 749
.... 1989:• 0

Annual budget expenditure for support concerning ship export credits:

(millions of DKK)

• ... 1986 : 55
• ... 1987 : 70
• ... 1988 : 70

There are no special funds to facilitate export credits for the developing countries. There are no statutory limits for the award of export credits for ships.

2. Export credit insurance

The Danish Export Credit Institute, Eksportkreditradet, issues export credit insurance coverage in conformance with normal commercial principles. A premium is paid, which is proportionate to the risk covered under varying circumstances. A typical guarantee covering both political and commercial risks involved in a sale to an OECD Member State at normal conditions could be 0.5 per cent of the debt in the first year and 0.3 per cent of the outstanding debt in each of the following years.

Amount of guarantees outstanding:

(in billions DKK)

- •• 1986:• 35
- •• 1987:• 38
- •• 1988:• 37

There is no budget expenditure in export insurance credit. There are no annual statutory limits for the issue of government guarantees and ship export credit insurance.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.
2. Home credit schemes

For the institutional set up, see Item E.

From January 1, 1989 until January 1, 1992 the Danish aid schemes consist of:

- 1) The aid scheme for national and EEC shipowners offered up to end 1988, for deliveries at latest by end 1990, credit facilities for 80 per cent of contract price running for 14 years (4 years grace period) at either 2.5 per cent p.a. or 4 per cent p.a. interest and combined with an inflation guarantee linked to the net consumer price index beyond 3 per cent p.a. (for 2.5 per cent bonds) or beyond 1.5 per cent (for 4 per cent bonds). For contracts concluded with Danish yards over the period from 1989 to 1992 the Danish government has notified, and has had the approval of the EEC Commission, a gradual reduction of the grant element of the scheme. Thus the part of the 80 per cent covered by the indexed loans will be progressively reduced having at the end of the period only loans on OECD export credits terms. The time schedule is the following:

Contract concluded at latest•	Delivery• at latest•	Index loan•• coverage••	OECD loan coverage
----------------------------------	-------------------------	----------------------------	-----------------------

• 31.12.1988•	31.12.1990•	80%••	-
• 31.12.1989•	31.12.1991•	60%••	20%
• 31.12.1990•	31.12.1992•	45%••	35%
• 31.12.1991•	31.12.1993•	30%••	50%
• From 1.1.1992•	-••	-••	80%

- The following amounts of indexed loans have been disbursed:

(in millions DKK)

1987: 1,398
 1988: 4,226
 1989: 4,217

- The actual payment per year is the annual cost of the inflation guarantees:

- The amount of budget committed for each year is: (1):

(in millions DKK)

•••Commitments• Actual payments

• 1987• 273
 • 1988• 824••• 2
 • 1989 • 821••• 10

- (1) Amount of indexed loans disbursed multiplied by the net grant equivalent.

- There are no special schemes for fishing vessels in Denmark.

2) State guarantee for shipowners free of charge to cover second mortgage level, typically 30 per cent of contract price, for small cargo vessels.

Guarantees
 (in millions of DKK)

•	•	•Year •	Budget	•	• Costs
•	•	•1986 •	120 •	•	0
•	•	•1987 •	180 •	•	0
•	•	•1988 •	180 •	•	10
•	•	•1989 •	180 •	•	0

3. Tax treatment of maritime transport

For 1987 and 1988 two tax reduction schemes were notified to and approved by the EC Commission:

a) The grant equivalent of accelerated advanced depreciation relative to 1987 and 1988 arrived at roughly 2 per cent PA. This principle was however offset in the case of investors for whom shipping was not chief occupation.

b) The grant equivalent of using resources from establishment investment funds for shipbuilding in 1987 arrived at roughly 9 per cent.

As regards a K/S (Kommanditselskab), it is a limited partnership between Danish investors. As a Danish company, the K/S is able to buy a ship financed under the Danish Home Credit Scheme. All the big shipyards are private limited liability companies and some of them are affiliated to shipping companies.

4. Demolition and/or modernisation subsidies: Nil.

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors

All Danish shipyards are privately owned. Some shipyards are integrated within a shipping company.

B. Development of new shipbuilding capacity abroad

There do not exist specific arrangements for Non-Public assistance to the shipbuilding sector.

C. Inter-yard co-operation to meet market conditions

Danish shipyards co-operate in some areas which in some ways can be related to market requirements. For instance standardisation, joint purchase, research and development.

FINLAND

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing of ships

The government purchases ice-breakers and other special vessels for specific official tasks.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts: Nil.
2. Exemptions or rebates for indirect taxes on ships: Nil.
3. Tax treatment of shipbuilding: Nil.

C. Finance for investments and research

1. Facilities for the equipment of yards

No finance system specially aimed at the equipment of yards exists.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.

3. Contributions to research

The contributions to research and product development may be granted to industries for projects involving the development of new products. The annual provisions for contributions to research were approximately in years 1985 to 1989 1.5 - 2.0 FIM.

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.
2. Provision or guarantees of finance on favourable terms:

For exports there exists a scheme providing a guarantee against credit risks. These guarantees are designed to save the exporter against political and commercial risks. To the shipbuilding industry the value of these guarantees has been very small in recent years. No provisions exist.

3. Public ownership or participation

Shipbuilding activities in Finland are privately owned.
The state has 27.5 per cent shares in Masa Yards Ltd.

E. Export credit facilities

Institutions: Finnish Export Credit Ltd (FEC) is responsible for providing for export credits.

Mechanism: Buyer credits and supplier credits.

Procedure: The loan application procedure is examined according to the rules and terms of FEC.

Financing is possible also in other currencies than in Finnish markkas.

There are no provisions for government guarantees against exchange risks.

The amounts of export credit for ships extended are as follows:

(in millions of FIM)

•	•	•Outstanding••	New Credits
•	•	at the end of the year	
•	1986	::	2,439
•	1987	::	2,644••
•	1988	::	3,597••
•	1989	::	•••
			684
			1,204
			1,638

Total interest subsidy from government on foreign borrowing. Also for other investment goods than ships:

(in millions of FIM)

1986	:	34.7
1987	:	38.1
1988	:	32.3

•
The amount of export credits guaranteed are as follows:

(in millions of FIM)

1987	:	684
1988	:	1,204
1989	:	1,638

•
There is no special fund to facilitate credits for ship exports towards the developing countries.

There are no statutory limits for the award of export credits.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.
2. Home credit schemes

Institution: Finnish Export Credit Ltd.

Interest subsidy loan act for domestic purchases of ships:

- Effective from 1st January 1986 to the end of 1990.
- Covers purchases of new vessels and hulls and ship conversions by Finnish shipowners from Finnish shipyards.
- Loans are accepted to be interest subsidy loans by Ministry of Trade and Industry which confirms also the terms.
- Administration of the loans by Finnish Export Credit Ltd.
- The maximum amount of the loans during the availability period of the act (5 years) FIM 3,000 mill. (about USD 700 mill.).
- Terms of loans correspond to the OECD Understanding on Export Credits for ships.
 - . maximum credit portion of 80 per cent of the contract price.
 - . minimum cash portion of 20 per cent of the contract price.
 - . maximum repayment period 8.5 years from delivery.
- Exceptions to the terms of OECD Understanding
 - a) smaller ship (up to 1,600 GRT) minimum interest rate of 6 per cent.
 - b) cargo ships intended for transport of Finnish exports and imports. Minimum interest rate of 6 per cent.
 - c) on ad hoc basis:
 - In exceptional circumstances caused by unfair international competition, the government is authorised to decide to introduce more favourable terms to be applied to interest subsidy loan (available from 1988)

New credits disbursed
(in millions of FIM)

1986 :	13
1987 :	11
1988 :	85
1989 :	948

- Annual budget expenditure for the support of home credit schemes
(interest rate subsidies)

1986 : 0.2
1987 : 0.2
1988 : 0.9

- • • • 1989 : 6.0 (estimate)

3. Tax treatment of shipping
4. Demolition and/or modernisation subsidies
5. Operating subsidies

II. ASSISTANCE FROM NON-PUBLIC SOURCES

- A. Integration with groups or firms in other sectors

In Finland all shipyards are in ownership of concerns carrying on several lines of business.

- B. Development of new shipbuilding capacity abroad:

No assistance system exists.

- C. Inter-yard co-operation to meet market conditions

No inter-yard co-operation exists.

FRANCE

I. ASSISTANCE FROM PUBLIC SOURCES

The shipbuilding industry received budgetary allocations of a global amount of FF2,680 million in 1987, FF1,463 million in 1988 and FF1,130 million in 1989.

These annual budgetary allocations can be used as direct production aids or to finance the social plans implemented and for the restructuring of ailing shipyards under the conditions (in particular concerning the ceiling on such aid) laid down by the 6th Council Directive on aid to shipbuilding.

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions

The issue of import licences for ships has become very much easier since 1959. Liberalisation of trade in this field is on a de facto basis with the EEC countries and largely operates with the traditional shipbuilding countries.

The import licensing system applied to shipbuilding is a way of supervising the French Merchant Fleet from the point of view of national defence rather than a legislative measure. Moreover, its retention is considered necessary in order to ensure observance of exchange control regulations. Lastly it permits inspection of compliance with technical standards, particularly those regarding safety.

3. Government purchasing

In France all warships are built in specialised yards -- the French Navy Arsenal -- and French Government orders for such units are traditionally placed with these establishments.

Recently, in early 1989, a private yard, ALSTHOM-Saint-Nazaire won an order for patrol frigates for the French Navy.

B. Fiscal assistance to shipyards

French shipping companies do not benefit from any special fiscal measures. They apply the general depreciation scheme and can opt for either a straight-line (or constant depreciation system or for the declining balance system available for capital goods having a lifetime of over three years.

1. Customs duty exemption or rebates for imported materials and parts

Since 1st July 1968, by application of the decision of the Council of the European Communities of 28th June 1968, products intended for incorporation in seagoing vessels, classified under items 89.02 and 89.03 of the Common Customs Tariff and whether built for domestic account or for export, have ceased to bear customs duty.

2. Exemptions or rebates for indirect taxes on ships

Although since 1st January 1968, the law of 6th January 1966 regarding the general application of Value Added Tax has applied to shipbuilding, sales of ships are exempt from VAT, except in the case of sales to the French Government, because sales to foreign shipowners come under the general exemption granted to exports, and sales to French shipowners are treated as exports.

3. Tax treatment of shipbuilding: Nil.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

The total amount of budget expenditures related to the restructuring of ailing yards and the social plans associated are:

(in millions of FF)

•	•••1987 ::	2,000
•	•••1988 ::	600
•	•••1989 ::	400

3. Contributions to research

There is no particular permanent procedure in favour of shipbuilding, but it is eligible for the general procedure in force to encourage research. Possible assistance consists of subsidies partly to finance certain operations jointly with shipyards, the Research Institute on Shipbuilding (IRCN) or other firms from the sector (classification societies, ...). Yards can also benefit from aids for innovation in the form of advances repayable in the event of success, these being administered by ANVAR (Agence Nationale de Valorisation de la Recherche). The programmes supported by the Ministry of Industry seek to improve the shipyards' competitiveness by pursuing three lines of research: higher productivity, specialisation in sophisticated ships, improvement of basic knowledge.

Shipyards do not benefit from any specific measures, but benefit from general measures to promote research. Research programmes in the shipbuilding area receive annual total support of about FF 20 million.

4. Assistance for the development of shipbuilding capacity abroad:

D. General facilities for financing the activities of yards

1. Direct aid to production:

The total amount of direct production aid is:

(in millions of FF)

•	•••1987	::	680
•	•••1988	::	863
•	•••1989	::	930

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation

Nil for civilian shipyards. The French Navy Arsenal mentioned under I.A.3. belong to the State.

E. Export credit facilities

1. Provision of credits on favourable terms

Most capital goods are eligible for export credits on favourable terms provided that they qualify for the "Assurance Crédit" issued by the Compagnie d'Assurance pour le Commerce Extérieur (COFACE).

An interministerial committee meets periodically to consider applications for guarantees (amounts involved, risks, etc.).

The OECD Understanding on Export Credits for Ships, in force since 1st July 1969 and amended in December 1980, defines the maximum credit terms applicable to ships: 20 per cent minimum of instalments during the period of construction, maximum repayment period: 8 1/2 years. The rate of interest may in no case be less than 7.5 per cent. To this basic rate are added the various premiums for political and commercial risks and also exchange rate risks, should the exporter so ask, as well as certain commission fees. The final rate is thus over 8 per cent.

The total amount of export credits for ships granted at OECD conditions were:

(in millions of FF)

•	•••1987	::	972
•	•••1988	::	1,723
•	•••1989	::	1,824

The amount of aid credits granted for ship exports to developing countries at special OECD conditions were:

(in millions of FF)

•	•••1987 ::	93
•	•••1988 ::	89
•	•••1989 ::	7.5

2. Export credit insurance

The cost of credit insurance in France varies with the risk as estimated by the French authorities and the type of buyer (public or private). Premiums for credit insurance are added to the cost of credit.

The amount of insured export credit for ships were:

(in millions of FF)

•	•••1987 ::	972
•	•••1988 ::	1,810
•	•••1989 ::	1,971.5

3. Insurance against exceptional increases in production costs

French shipyards, in the same way as all exporters of capital goods, are covered by a system of insurance against exceptional increases in production costs which is similar in principle and terms to the system of insurance available to exporters of capital goods in general, and is administered by the Ministry of Industry which is responsible for the shipbuilding sector.

As ships are treated on the same footing as exports for French tax and customs purposes, orders given by French shipowners also qualify under this procedure. An annual premium of 1.15 per cent per year is payable.

Given the low rate of inflation in France and the minimum threshold for intervention, this procedure is not currently applied.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions:

-- Merchant shipping: investment aid ranging from 0 to 15 per cent of the purchase price, administered by the Ministry for Maritime Affairs and allocated solely on the basis of commercial criteria, irrespective of whether the ship is built in France or abroad.

-- Fishing: national and community aid under the complex EEC system.

The total amount of direct aid granted to customers is:

(in millions of FF)

- ...1987 :• 1,550
- ...1988 :• 1,050
- x...1989 :• 840

2. Home credit schemes

Budge expenditures associated to interest subsidies granted to shipowners before 1986 on the condition of ordering at a national yard were:

(in millions of FF)

- ...1987 :• 430
- ...1988 :• 346
- ...1989 :• 278

3. Tax treatment of shipping: Nil.

4. Demolition and/or modernisation subsidies: Nil.

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors

Nil (the ALSTHOM-Saint-Nazaire yard was made a subsidiary in 1989).

B. Development of new shipbuilding capacity abroad: Nil.

C. Inter-yard co-operation to meet market conditions: Nil.

GERMANY

Introduction

The production of German yards amounted to 502,500 cgrt in 1988. This is a decrease of 20.8 per cent in comparison with 633,000 cgrt in 1985.

Conversion measures and the adjustment of capacities made good progress.

The German labour force sank from 18,200 (1985) to 14,845 (1988). Many shipyards claim that they have reached their minimum capacity.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing of ships

There are no particular aids for purchases by the government or public bodies.

Amount of Government ship purchasing
(excluding navy vessels)
(in million DM)

•••1987••1988••1989
•
•••48.1••63.7••65.1

B. Fiscal assistance for shipbuilding yards

1. Customs duty exemption or rebates for imported materials and parts

Imported material for the building of sea-going ships is exempt from customs duty. The exemption is applicable for ships exported and for domestic orders.

2. Exemption or rebates for indirect taxes on ships:
Sea-going ships are exempt from value-added tax.
3. Tax treatment of shipbuilding: Nil.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.

2. Provision, guarantee or grant of finance contribution to the reorganisation and conversion of yards

The four North German coastal states have agreed in 1986 to grant financial assistance to restructure the shipbuilding industry (including, inter alia, redundancy schemes and special write-offs for the shutdown of capacity).

The Länder schemes have been notified to and approved by the EC Commission.

- a) Investments for rationalisation and modernisation are eligible for support up to a level of 30 per cent of costs.
- b) Costs of conversion into activities other than shipbuilding are eligible for support at the prevailing maximum regional aid rate plus 5 percentage points.
- c) Closures are supported up to 50 per cent of costs.

....(in millions of DM)

..Total grants:..1987:.. 1.3

....1988:..52.79

....1989:..80..(estimated)

3. Contributions to research

Contributions (grants) by the Federal Government to research projects in the fields of shipbuilding (including technical modernisation) and off-shore amounted to:

(in millions of DM)

...Ships...Offshore

..1987:.. 1.1.. 0.5

..1988:.. 0.7.. 1.1

..1989:.. { .. 2.0 .. }

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct production aid

On July 1st 1987, the Federal Government decided to restructure the existing system of assistance to shipping and shipbuilding.

In the place of building grants to German shipowners the shipbuilding industry received competition related assistance. DM 700 million were made available for such aids up to the end of 1990 (with the Federal States contributing one-third of the amount). Supplementary 200 DM -- with a reduced subsidy rate -- were approved by the Parliament.

Competition related assistance is aimed at compensating, at least to some extent for disadvantages that German shipbuilders suffer from higher subsidies granted in other countries.

The construction or conversion of sophisticated ships is assisted at a rate of up to 20 per cent of the contract price in accordance with the aid provided to the foreign competitor involved. In the absence of offers from subsidised foreign competitors the German shipbuilders do not receive assistance affecting competition.

2. Provision of guarantee of finance on favourable terms: Nil.

3. Public ownership or participation

Ownership of the shares of one big shipyard is distributed as follows:

75 per cent held by a state-owned steel mill organised as a joint stock company, 23 per cent held by the state of Schleswig-Holstein.

The state of Bremen owns 1 per cent of the ordinary capital of one bigger shipyard.

(in millions of DM)

•

Capital infusions

•••	1987•	0
•••	1988•	111.4
•••	1989•	37.7

E. Export credit facilities

•

1. Provision of credits on favourable terms

In order to bridge the gap or a part of it between the German market interest rate and the interest rate according to the OECD-credit terms, the market interest rate in general is subsidised by 2 percentage points. Exceptions for contracts in foreign currencies -- when 2 percentage points are not sufficient -- are possible, if necessary to meet the conditions of foreign competitors' offers.

Special conditions apply for exports to developing countries on a case-by-case basis within the framework of the OECD Understanding on Export Credits for Ships. At present, the 6th allotment under the 8th Shipbuilding Assistance Program for deliveries in the period 1987-1989 is in force. The 7th allotment for deliveries in the period 1990-1992 will succeed when the EC Commission will have given the approval.

Amounts of export credit at OECD conditions
(in millions of DM)

••Credit extended Official expenditures

••1987 :•213•••135
••1988 :•669•••149
••1989 : 776•••170

Amounts of export credits at special OECD conditions
for developing countries
(in millions of DM)

••Crédit extended •Official expenditures

••1987 :•329••• 76
••1988 :•956••• 87
••1989 :•675••• 90

2. Export credit insurance

Insurance of export credits is not compulsory, but can be obtained to cover up to 90 per cent of the political and economic risks of such credits.

Total amount of credits insured/or guaranteed
(in millions of DM)

••••1987 :• 151
••••1988 :• 658
••••1989 :•1590

F. Assistance to customers

1. Direct aid and conditional loans

Interest-free loans may be granted to West German shipowners in respect of ships flying the flag of the Federal Republic of Germany.

Financial contributions were made as interest-free loans repayable on condition in order to limit the operation of German-owned ships under foreign flags, to bridge economic difficulties and to improve German shipping companies' capability to invest.

From 1988 on, grants were given instead of loans. There is no legal claim in such financial contributions.

(in millions of DM)

•	•• 1987•	203.6 (loans)
•	•• 1988•	163.5 (grants)

Amount of forgiveness (in the case the money were reinvested in new buildings)

(in millions of DM)

- ...1987 : 25.5
- ...1988 : 16.6
- ...1989 : 17.6

2. Home credit schemes

There is no special home credit scheme in the Federal Republic of Germany, OECD terms apply to home credit as well as to export credits.

- a) The programme of grants given to private shipowners for the newbuilding of ships (12.5 per cent of the contract price) and for certain types of conversion has been discontinued in 1987. Expenditures in 1988/89 are due to former commitments:

(in millions of DM)

- 1987 :• 96
- 1988 :•101.24
- 1989 :• 30

- b) According to uniform criteria approved by the EEC Commission the coastal states Hamburg, Bremen, Niedersachsen and Schleswig-Holstein grant credit guarantees to a limited extent for the purchase of commercial ships, insofar as the credits cannot be secured by ship-mortgages. In line with the above-mentioned criteria, the coastal states grant guarantees to a limited extent for the raising of capital by one-ship companies to ensure the construction of new buildings.

- In 1987, the governments of the coastal states granted shipbuilding credit guarantees worth DM 149.4 and DM 9.4 million in 1988.

- c) Trawler deep-sea fishery activity is still retrograde; aids for the modernisation of trawlers are insignificant. As to the cutter and coastal fisheries, financial promotion is granted for investments (Federal Budget: max. DM 10 million per year).

3. Tax treatment of maritime transport

Shipowners can make use of a special depreciation system which offers a small advantage in comparison with the normally executed accelerated depreciation that is not only applicable to maritime transport but to any enterprise.

4. Demolition and/or modernisation subsidies: Nil.

-
5. Operation subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors

Three larger German shipyards are partly owned by steel enterprises. No effects on iron and steel subcontracting resulting from such participation have been reported. Furthermore, one shipyard is owned by banks.

B. Assistance for the development of new shipbuilding capacity: Nil.

C. Inter-yard co-operation to meet market requirements

Various shipyards are offering vessels jointly. Co-operation is carried out on a case-by-case basis.

GREECE

Introduction

The Greek shipbuilding industry for a long period faces a deep and continuing economic crisis which is expressed mainly with under-employment of its productive sources.

The strong competition at international level and the low demand in shipbuilding and repair works are the main reasons for this negative picture.

The big shipyards in order to handle this situation, direct part of their capacity in other industrial activities as the construction of railway materials.

In the period between 1985 and June 1989 there were not any specific measures in support of the shipbuilding industry. In June 1989 a new bill was submitted to the Greek Parliament introducing new measures embodied the 6th directive of EEC of this special sector in the national legislation.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing

Only for the Greek navy.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts
Imported materials for building open-sea ships are exempted from customs duty.
2. Exemptions or rebates for indirect taxes on ships: Nil.
3. Tax treatment of shipbuilding: Nil.

C. Finance for investments and research

1. Facilities for the equipment of yards:

The shipyards take loans with terms of the regular industrial funds.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.
3. Contributions to research: Nil.
4. Assistance for the development of shipbuilding capacity abroad: Nil.
- D. x General facilities for financing the activities of yards: Nil.
 1. Direct aid to production: Nil.
 2. Provision or guarantees of finance on favourable terms:
 3. Public ownership or participation

Greek commercial banks which are state-controlled, participate in the capital equity of shipyards.
- E. Export credit facilities
 1. Provision of credits on favourable terms: Nil.
 2. Export credit insurance: Nil.
- F. Assistance to customers:
 1. Direct aid and loans repayable under certain conditions: Nil.
 2. Home credit schemes: Nil.
 3. Tax treatment of shipping: Nil.
 4. Demolition and/or modernisation subsidies: Nil.
 5. Operating subsidies
- II. ASSISTANCE FROM NON-PUBLIC SOURCES
 - A. Integration with groups or firms in other sectors: Nil.
 - B. Development of new shipbuilding capacity abroad: Nil.
 - C. Inter-yard co-operation to meet market conditions: Nil.

IRELAND

Summary of Recent Trends

There were no new measures adopted to assist the shipbuilding industry in Ireland in the period 1985 - June 1989. The only Irish shipbuilding facility, Verolme Cork Dockyard, has been closed and in receivership since 1984.

Verolme, a medium technology yard, comprises an area of 46 acres and was originally designed for building up to 60,000 dwt bulk carriers and later entered ship repair and heavy engineering. The yard closed in November 1984. 600 jobs were lost. Over 1,000 had been employed in 1983. The Irish Government's objective in relation to Verolme is to retain the marine engineering fabrication/shipbuilding/repair capability of the yard and to avoid any stripping of assets.

Negotiations are currently underway with a party interested in acquiring the facility.

D2. Provision of finance on favourable terms

The Shipping Finance Corporation (SFC) was set up as a non-statutory body on foot of a Government Decision of January, 1966 approving a scheme whereby SFC could advance subsidised loan finance, in accordance with the OECD Understanding on Export Credit for Ships, to foreign Shipowners acquiring ships built in Verolme Cork Dockyard. A further Government Decision of September 1967 extended approval for funding to include vessels built for Irish Shipowners and Semi-State bodies.

E. Export Credit Insurance

Under the Insurance Act, 1953 the Minister for Industry and Commerce is authorised to provide export credit insurance to assist Irish exports. Since 1971 export credit insurance has been administered by the Insurance Corporation of Ireland plc (ICI) as an agent of the Minister. The Minister is empowered to underwrite exports to the value of IR 300 m.

No export credit insurance was provided in respect of shipbuilding for the period 1985-1989. Consequently there is no data relating to insurance terms, etc. for the period.

ITALY

Introduction

Following the Government's approval of a restructuring and rationalisation programme in 1984, Italy's shipbuilding industry has been engaged in a process of reorganisation involving, especially for the larger shipyards, the necessary structural adjustments to cut existing overcapacity and overmanning as much as possible having regard to the socio-economic necessities.

At the same time, the industry has improved its adaptability to market changes.

All these factors justify the government measures under the fifth EEC Directive and the new measures implementing the Vith EEC Directive, which will be introduced with the prior consent of the EEC Commission.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions

No restrictions. On the contrary, Act No. 234/89 provides for assistance to an Italian shipowner purchasing second-hand vessels abroad within certain limits.

3. Government purchasing of ships

There is no exception to the general government procurement system which follows ordinary administrative procedures. These consist of a call for tenders which are reviewed to assess the capability of potential suppliers and the terms quoted.

This completely rules out any element of assistance.

However, almost all government orders are for warships and are concentrated on specialist shipyards.

From year to year, warships account on average for nearly 20 per cent of all new orders.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

Imported shipbuilding materials are exempt from customs duty, regardless of whether the ship is being built for an Italian owner or for export.

2. Exemptions or rebates for indirect taxes on ships

Materials for use in the building of any ship other than a pleasure craft are exempt from VAT.

3. Tax treatment of shipbuilding

Italy has no fiscal instrument providing preferential treatment for shipbuilding companies.

So a shipbuilding company is subject, like any other company, to a corporate profits tax and to a local income tax.

The depreciation rules are exactly the same as for manufacturing industry in general. Rates are set by ministerial order for categories of goods. These rates can be halved for the first financial year. Depreciation during the first three years can also be "anticipated" by applying a value two and a half times above the normal rate.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

Grants of up to 40 per cent of the investment are available towards the modernisation of a shipyard when this will not result in any increase in production capacity.

Budget:• 1989 : L 7 billion
• 1990 : L 20 billion
• 1991 : L 20 billion

For reconversion, loans are generally available of up to 50 per cent of the cost of measures to reduce production capacity, but no such loans are as yet envisaged.

3. Contributions to research

No form of assistance is provided for shipyards except for a grant towards the development of prototypes, which is made available in accordance with the limits laid down by the relevant EEC provisions.

If the prototype is used commercially, the grant must be paid back.

On the research side, the government also funds up to 90 per cent of research programmes in ship design and propulsion conducted by "public interest" institutions (INSEAN and CETENA).

Budget:• Prototypes:•• L 12 billion for 1988
• Research institutions: L 81.4 billion
• for the three-year programme 1988-1990.

4. Assistance for the development of shipbuilding capacity abroad

There is no assistance for developing Italian shipbuilding capacity abroad.

D. General facilities for financing the activities of yards

1. Direct aid to production

For newbuildings initiated between 1987-1990, yards may qualify for aid in the form of a grant corresponding to the maximum ceiling fixed each year by the EC Commission and calculated on the contract value before aid.

Up to now the aid has amounted to 28 per cent for 1987 and 1988 and 26 per cent for 1989.

Aid towards the construction of a ship costing under Ecu 6 million may not exceed 20 per cent of the contract value before aid for 1987 and 1988, and 16 per cent for 1989.

Budget
(6th Directive EC)
(in billions of LIT)

•	•	•	1989	::•	44.6
•	•	•	1990	::•	83
•	•	•	1991	::•	222

Besides the actual payments associated with the previous aid scheme (5th Directive EC) were:

(in billions of LIT)

•	•	•	1987	::•	350
•	•	•	1988	::•	320
•	•	•	1989	::•	240

2. Provision or guarantees of finance on favourable terms

Shipyards have no specially favourable terms on which to finance their activities and must accordingly do so under market conditions.

3. Public ownership or participation

About 70 per cent of Italy's production capacity belongs to a group, in which the State has a stake that is large enough to ensure control.

In 1987 and 1988 respectively, the public shareholder has provided 6 and 24 billions of LIT in order to cover operation losses incurred in shipbuilding activities. These amounts were reduced to 4 and 22 billions of LIT through recourse to the firm's reserves.

E. Export credit facilities

Description of the institutional arrangements in force to provide government support for export credit facilities

Government support for export credits is made available by the Mediocredito Centrale on behalf of the State. This support normally takes the form of an interest subsidy scheme designed to bring down the rate applying to the transaction to the 8 per cent stipulated in the Understanding.

If the market rate for the transaction currency is under 8 per cent the difference is paid to Mediocredito Centrale.

Credits are financed by banks and medium-long term credit institutions. Financing may take the form of a credit either to the supplier or to the purchaser.

The proposal transaction is submitted to Mediocredito Centrale by the bank or financial institution (which has already made its financial assessment of the proposal) with an application for assistance which is examined, exclusively for the purpose of government support, by the export credit service of Mediocredito Centrale. The proposal is then referred to the board which is empowered to grant government support.

A transaction can be financed in currencies other than the lira but if government support is provided the applicable rate is always the minimum rate stipulated in the Understanding.

1. Provision of credits on favourable terms

a) Amounts (L billion) of ship export credit made available with government support:

•	••	1985	••	119
•	••	1986	••	4.5
•	••	1987	••	0
•	••	1988	••	1.1
•	••	1989	••	0.9

b) Annual budget expenditure for support concerning ship export credits

- The specific amount of annual spending on ship export credit support is not available separately from the total payments over the year for interest subsidies associated with export credit transactions.

2. Export credit insurance

The export credit insurance system for ships is no different from the system applying generally to other capital goods. Following payment of an insurance premium to the SACE (Sezione Speciale per l'Assicurazione del Credito all'Esportazione), a public agency, the State takes responsibility for the (essentially political) risks associated with payment by foreign customers for exports.

The costs vary according to the risk and to the status of the purchaser (public or private).

The premia vary according to the length of credit and the currency of denomination. For an average credit duration and for countries within the second risk category (over three), the average premium for political and commercial risk cover is around 1.2 per cent.

For all categories taken together, the average yearly premium rate for official guarantees and credit insurance, covering commercial and political risks, for exports of vessels is around 0.57 per cent of the amount of credits extended. The premium is paid separately by the policyholder who can add it to the contract amount. Bank guarantees are also required as additional security.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.

2. Home credit schemes

There is no public institution or public-sector related institution specifically or solely responsible for providing xfinance. Owners finance their investment in shipbuilding under market conditions.

The act implementing the sixth EEC Directive requires the terms of the OECD Understanding to be extended to Italian shipowners.

The State accordingly makes aid available in the form of six-monthly subsidies to bridge the gap between what the subsidy would have to be for a loan calculated on the basis of the OECD conditions and what it would be for a loan based on Italian market rates. With this aid the recipient may place orders with any shipyard in any EEC country.

It is reported that about 80 per cent of all home orders for ships could qualify under these measures.

•	••	Expected payments (6th Directive EC) (in billions of LIT)
•	••	1989 : • 21 billions of LIT
•	••	1990 : • 122
•	••	1991 : • 131

No government guarantees are granted for credits.

In addition, the actual payments associated with the previous aid scheme (5th Directive EEC) were:

(5th Directive EC)
(in billions of LIT)

•	••	
•	••	1987 :• 120.5
•	••	1988 :• 106.8
•	••	1989 :• 123.5

3. Tax treatment of shipping

Italian maritime transport companies do not benefit from any special tax measures. They are subject to the ordinary depreciation rules, and the rate applicable to a new ship varies depending on what type of ship it is.

Depreciation rates for the costs of goods used by the company may be deducted from the financial year in which the item concerned is put to use. Accordingly, no provision is made for advanced depreciation from the signing of the building contract.

The deduction must not exceed the amount that would result from applying statutory coefficients decree and halved for the first financial year.

Coefficients are determined for homogenous categories of goods on the basis of the ordinary depreciation/wear and tear in different industrial sectors.

Useful life depends on the depreciation coefficients.

4. Demolition and/or modernisation subsidies

No assistance is provided to owners for scrapping ships.

5. Operating subsidies

Assistance is provided for the operation of specified lines and services having some public interest character, in particular for the socio-economic requirements of the Italian islands.

II. ASSISTANCE FROM NON-PUBLIC SOURCES: Nil.

A. Integration with groups or firms in other sectors

B. Development of new shipbuilding capacity abroad

C. Inter-yard co-operation to meet market conditions

JAPAN

Introduction

Recent Trends and Government's Objectives Concerning the Structure of the Japanese Shipbuilding Industry

Whereas the two oil crises drove the world shipbuilding industry into a severe recession protracted for over ten years, the fundamental reason for this difficult situation lay in a structural demand-supply gap. In order to perform its international responsibility as the leading shipbuilding country in the world, Japan has made every possible effort to eliminate this demand-supply gap in accordance with the General Guidelines of the OECD.

Specific measures Japan has taken to achieve this end include the restructuring actions implemented twice in fiscal 1979 and fiscal 1987, focusing on the disposal of surplus facilities, and operational adjustments by an anti-recession cartel or otherwise, continually carried out since to adjust the physical capacities to the demand in a medium and long-term perspective, and the latter, intended as emergency measures to cope with the prevailing demand-supply gap, have functioned to supplement the former.

Although these measures have imposed heavy burdens on Japanese shipyards and the local communities in which they are situated, we believe the actions which entailed these great sacrifices have been making important contributions to the normalisation of the world shipbuilding market.

In implementing these measures required for the improvement of the shipbuilding market, the Japanese Government, standing by the belief that they should conform to the principle of free trade and the imperative of ensuring fair competitive conditions, has faithfully observed the General Arrangement of the OECD and given no subsidy to disturb normal and fair competitive conditions.

Restructuring in Fiscal 1987

Designated shipbuilding enterprises (shipbuilders equipped for the construction of vessels of 5,000 gt and upward) disposed of their surplus facilities and entered into business tie-up arrangements in accordance with guidelines prescribed by the government under the Temporary Measures Law Concerning Operation Stabilisation of Designated Shipbuilding Enterprises. As a result, the number of designated shipbuilding enterprises in Japan was reduced from 44 in April 1987 to 26 by April 1988, and that of order-taking channels, from 21 (11 groups plus 10 independents) to eight. The physical shipbuilding capacity was curtailed from about 6.03 million cgt comprising 73 shipbuilding berths or docks to about 4.6 million cgt comprising 47 units, representing a disposal rate of 23.6 per cent.

Antirecession Cartel

An antirecession cartel was implemented under the Anti monopoly Law from fiscal 1987 on, covering shipbuilding enterprises equipped for the construction of 10,000 gt and larger vessels (the output ceiling was 3 million cgt in fiscal 1987, 2.42 million cgt in fiscal 1988 and 2.39 million cgt in fiscal 1989).

As the shipbuilding market began to show signs of improvement partly thanks to the restructuring and operational adjustment measures taken in Japan, the antirecession cartel was discontinued at the end of September 1989.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships:

All imported ships are duty-free.

Some ships of less than 100 gt were subject to customs duties of 2.4 per cent, but they have become duty-free since 1st April 1990.

2. Import restrictions: Nil.

3. Government purchasing

The government purchases ships mainly for the Defence Agency and the Maritime Safety Agency (MSA). The government purchasing of such ships is not subsidised.

The tonnages the MSA bought in recent fiscal years are listed below.

	•	•	••	cgt	millions of yen
	•	•	1986•	20,000•	5,350•••
	•	•	1987•	29,000•	9,560
	•	•	1988•	13,000•	6,150
	•	•	1989•	38,000•	14,520

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts: Nil.

2. Exemptions or rebates for indirect taxes on ships: Nil;

Except that ocean-going ships and ships for export are exempted from the consumption tax with a view to border tax adjustment.

3. Tax treatment of shipbuilding

- a) Regulations for corporate profits tax on shipbuilding companies. No special measure is granted in favour of the shipbuilding industry;
- b) Plant depreciation system. No special measure is granted in favour of the shipbuilding industry; and
- c) Fiscal measures to encourage the development, restructuring of withdrawal of shipbuilding capacity. In order to facilitate the disposal of facilities by designated shipbuilding enterprises, the following measures were introduced:
 - i) Extension of the period of deferment for the losses incurred in connection with the disposal of facilities (from the normal length of five years to ten years). This extension covered only such losses incurred in fiscal years 1987 and 1988 but is already discontinued for any such losses incurred in later years.
 - ii) Accelerated depreciation (by 15 per cent) of specific machinery and equipment purchased for switching to another line of business or the like. Such items acquired in and after fiscal year 1991 shall no longer be eligible (no such special depreciations applied by fiscal 1989).

C. Finance for investments and research

- 1. Facilities for the equipment of yards: Nil.
- 2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

When shipbuilders drastically curtailed their facilities in fiscal 1987 in accordance with the government-prescribed guidelines, the government implemented measures through the body named below with a view to supplementing and encouraging the shipbuilders' actions.

1. Designated Shipbuilding Enterprises Stabilisation Association (reorganised into the Association for Structural (Improvement of the Shipbuilding Industry in fiscal 1989).•••

- 1) Outline of system, budgetary appropriations and results.
 - i) Purchasing of surplus facilities and lands.
- The association purchases, manages and sells to the parties other than shipbuilders surplus facilities and lands owned by designated shipbuilding enterprises (the purchases had been completed in fiscal 1987, and the association is now only managing and selling these assets, with the sales of lands scheduled for completion by the end of fiscal 1997).

- • The funds needed for the purchases are borrowed from the Japan Development Bank (Y4532 million) and city banks (Y6147 million), and the refundment of the principals of these loans, the payment of interest thereon and the operating and administrative expenditure of the association are financed with proceeds from the sales of the purchased facilities and lands and contributions by surviving shipbuilders. Part of the interest on the loans is borne by the government.
- • Interest subsidies by the government:
 - • • Fiscal 1986 Y629 million
 - • • Fiscal 1987• Y315 million
 - • • Fiscal 1988• Y552 million
 - • • Fiscal 1989• Y403 million
 - • • Fiscal 1990• Y263 million (budgeted)
- ii) Debt guaranteeing in connection with borrowings to finance facilities disposal.
- • The association provides a debt guarantee (the guarantee effective for five years with optional grace for two years) to any designated shipbuilding enterprise disposing of its facilities if the enterprise wished to borrow a demortgaging fund or the like required in connection with the disposal. The enterprise receiving such a guarantee should pay a prescribed fee to the association and obtain a reguarantee, corresponding to 1/2 of the sum guaranteed by the association, from a juridical person having adequate financial resources, such as a financial institution or the parent company of the debtor.
- • In order to enable the association to provide such guarantees, the Japan Development Bank invested Y1 billion in the association in fiscal 1987.
- • • Sums of debt guarantees provided:
 - • • Fiscal 1987• Y 4.8 billion
 - • • Fiscal 1988• Y 4.7 billion
 - • Fiscal 1989 to present 0

2. Japan Development Bank

- 1) The Japan Development Bank (JDB) accommodates part of the funds to finance the readjustment of production arrangements required in connection with the disposal of facilities by designated shipbuilding enterprises.

- 2) Budgetary appropriations.
- The financial resources of JDB financing comprise loans from the government and funds raised in the capital market, but include no expenditure from the government.
- 3) Financing terms and loans accommodated.
- i) Financing terms
 - Coverage of JDB finance: 40 per cent of the needed sum.
 - Period of refundment: The same as that required by the co-financing city bank.
 -
 - Interest rate: 7.3 per cent (as of September 21, 1990)
- ii) Loans accommodated.
 - • Fiscal 1987: 0
 - • Fiscal 1988: Y 200 million
 - • Fiscal 1989: Y 300 million
 -

3. Contributions to research

The Ship Research Institute, which is a national research body, is conducting fundamental research of safety and pollution prevention among other things, which no private body can be expected to effectively engage in. The policy of the Ministry of Transport concerning research and development mainly concerns the prescription of guidelines for technical development, but the Ministry is involved in no such subsidization as would specifically benefit shipbuilders.

Effective from 1989 on, the government has instituted a system to promote highly risky fundamental and pioneering technical development projects with a view to contributing to the future development of marine transport, and in this connection set up the Association for Structural Improvement of the Shipbuilding Industry by reorganising the Designated Shipbuilding Enterprises Stabilisation Association, through which subsidies are granted to specific research projects.

Subsidies in fiscal 1989: Y 731 million.

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation: Nil.

Incidentally, with a view to helping eliminate the overtonnage, shipbuilding enterprises demolishing ships of 2,500 gt and upward are granted subsidies of Y2,710 per gt at the maximum (in fiscal 1990).

E. Export credit facilities

1. Provision of credits on favourable terms

Ship exports from Japan are partially financed by the Export-Import (Ex-Im) Bank of Japan. (The Ex-Im Bank of Japan is a body to supplement or encourage the financing by private financial institutions of exports, imports and overseas investments).

The financing by the Ex-Im Bank of Japan of Ship exports is implemented as specified below in accordance with the conditions set forth by the OECD Understanding on Export Credits for Ships.

Incidentally, financing by the Ex-Im Bank of Japan was accommodated in virtually no recent cases.

a) Form and conditions of finance.

- Form: Supplier credit.
- Proportion of Finance: The portion of the price payable on a deferred basis, other than the 30 per cent down payment, is jointly accommodated by the Ex-Im Bank and commercial banks on a 50:50 basis.
- Interest rate: So determined as to make the combined interest rate of the Ex-Im Bank and commercial banks equal to the rate prescribed by the Understanding (8 per cent).
- Annual statutory limits for the award of export credits: Nil.

b) Sums of funds accommodated:

- • Fiscal 1986 : Y 2.3 billion
- • Fiscal 1987 : Y 0.2 billion
- • Fiscal 1988 : Y 3.7 billion
- • Fiscal 1989 : Y 3.8 billion

- It is possible for the finance to be accommodated in a foreign currency, but actually no such finance has been provided so far.

c) Annual budget expenditure for support concerning ship export credits.

- The financial resources of Ex-Im Bank financing comprise loans from the government and funds raised in the capital market, but include no expenditure from the government.

d) Special fund to facilitate credits for export to developing countries.

- There is no special export credit system for developing countries.
- Incidentally, in two past instances, the Ex-Im Bank of Japan undertook matching under the OECD Understanding of Export Credits for Ships to meet the terms of tied aid credits by other countries, but did not actually accommodate loans as the Japanese competitor in each case failed to win the order. As regards ODA loans (yen loans) provided by the Overseas Economic Co-operation Fund (OECF), the OECF considers the accommodation of such loans only in cases truly conforming to the objective of aid in faithful observance of the OECD Understanding on Export Credits for Ships. (No such loans have been provided during fiscal 1986-1989.)

2. Export credit insurance

The Ministry of International Trade and Industry underwrites export insurance against commercial and political risk concerning export transactions including ship exports. The system of the ship export credit insurance, operated in accordance with the OECD Understanding on Export Credits for Ships is outlined below:

a) Underwriting body

- Ministry of International Trade and Industry

b) Premium Rate

- i) Annual basic rate: About 0.287 per cent
- This basic rate may be multiplied by a regional differential factor, which ranges from 0.5 to 5.0 according to the importing country.
- ii) The insurance premium is paid individually by the insured.
- iii) The insurance premium is not included in the standard interest rate set forth by the Understanding on Export Credits for Ships.....

c) Annual statutory limits for ship export credit insurance.

- The limit is set for each type of insurance, but there is no specific limit applicable to ship exports alone.

d) Security

- i) L/C or L/G
 - ii) First mortgage on the ship (prescribed not to exceed 50 per cent, at present up to about 47 per cent in practice, of the contracted price of the ship), accompanied with L/C, L/G or C/H Assignment as supplementary security.
- e) Government insurance against increase in production cost and fluctuations in exchange rate.
- - i) There is no system of government insurance to cover an increase in production cost.
 - ii) There does exist a system of insurance against exchange rate fluctuations, but it has never been actually applied to shipbuilding.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.
2. Home credit schemes

Institutional arrangements to facilitate the build-up of the Japanese flag merchant fleet include the Japan Development Bank finance system covering ocean-going vessels and the shipbuilding system under co-ownership with the Maritime Credit Corporation applicable to coasting vessels.

a) Japan Development Bank finance system.

- i) Implementing body: Japan Development Bank (JDB)
- ii) Outline of the system
 - Whereas the JDB accommodates long-term low-interest loans to finance the construction of Japanese-flag ocean-going vessels, the finance under this system is applicable to shipyards of any countries having received newbuilding orders.
 - The extension of a JDB loan is made in principle in the form of joint finance with a commercial bank or banks.
- iii) Procedures and criteria for assessing home credit applications.
-
- The JDB Bank, upon receipt of an application from the prospective borrower, examines whether or not the applicant has adequate performance records, assets, credit-worthiness and so forth as an ocean-shipping operator.

- iv) Financing terms
 - Ratio of down payment: No specifically prescribed.
 - Interest rate: 7.3 per cent (as of September 21, 1990)
 - Repayment period: 13 years (including a grace period of three years)
 - Possibility of funding in foreign currency: Nil at present.
 - Proportion of finance: 50 to 60 per cent.
 - Notwithstanding the foregoing, the financing terms are modified as follows, where applicable, for LNG carriers and ocean-going passenger vessels.
- For LNG carriers, the repayment period and the proportion of finance are modified as follows:
 - Repayment period: 15 years (including a grace period of five years).
 - Proportion of finance: 60 per cent.
- For ocean-going passenger vessels, the interest rate, the repayment period and the proportion of finance are modified as follows:
 - Interest rate: 7.3 per cent (as of September 21, 1990)
 - Repayment period: 15 years (including a grace period of 3 years)
 - Proportion of finance: 50 per cent.
- v) Government guarantees for home credit schemes.
 - No government guarantees are available.
- vi) Sums of funds accommodated:
 - •• Fiscal 1986 : Y 55.5 billion
 - •• Fiscal 1987 : Y 23.4 billion
 - •• Fiscal 1988 : Y 21.8 billion
 - •• Fiscal 1989 : Y 35.1 billion
- vii) Annual budget expenditure for the support of home credit schemes.
 - The financial resources of JDB financing comprise loans from the government and funds raised in the capital market, but include no expenditure from the government.
- viii) Annual statutory limits for home credit schemes: Nil.

2) Shipbuilding system under co-ownership with the Maritime Credit Corporation.

- i) Implementing body: Maritime Credit Corporation (MCC)
- ii) Outline of the system.
 - With a view to encouraging replacement of passenger vessels serving routes linking remote islands of Japan and that of superannuated or otherwise uneconomical vessels of coastwise shipping operators, many of whom are medium to very small enterprises, with modern ones, the MCC (1) builds vessels for use in coasting service under the formula of sharing their construction costs with their respective co-owners, (2) partly owns the vessels so built in proportion to its share of the construction cost and (3) charges a fee for the use of the MCC-owned part of each vessel to its co-owner to recover the MCC's share of the construction cost and the interest thereon while letting the co-owner use the vessel.
 - While the shipyards from which the construction of vessels under this scheme can be ordered are not limited to Japanese yards, the flag of the vessels is limited to the Japanese because of the MCC's involvement as a co-owner.
- iii) Procedures and criteria for assessing applications for shipbuilding under co-ownership
 - The applicant for shipbuilding under co-ownership is required to submit documents stating the expected revenue and expenditure concerning the vessel to be built and the operator's business prospects, and the construction of the vessel under co-ownership will be undertaken if it meets such requirements that the vessel to be built should be intended for coasting shipping operations and the business operations should be under healthy management.
- iv) Terms of co-owned shipbuilding scheme
 - Co-owning shares: MCC - 60 to 80 per cent
 - Operator - 40 to 20 per cent
 - Interest rate: Long-term prime rate in principle
 - Repayment period: 7 to 15 years (including a grace period
 - of three years)
 - Possibility of funding in foreign currency: Nil.
 - The terms somewhat vary with the type of the vessel to be built.

- v) Government guarantees for the support of the co-owned shipbuilding scheme.

- No government guarantee is available.

-

- vi) Sums of funds accommodated

Fiscal years	Coasting•	Coasting•	Total
••	passenger•	cargoships	
••	vessels•	•• ••	

(Billion Yen)

•	1986 •	11.6 •	29.7 •	41.3
•	1987 •	11.5 •	33.3 •	44.8
•	1988•	16.9 •	28.2 •	45.1
•	1989•	23.9•	26.1•	50.0

- vii) Annual budget expenditure for the support of the co-owned shipbuilding scheme

- The financial resources to finance the co-ownership comprise loans from the government and funds raised in the capital market, but include no expenditure from the government.

- viii) Annual statutory limits for co-ownership: Nil.

3. Tax treatment of shipping

a) Depreciation schemes for new buildings

- b) Tax treatment concerning the depreciation system for newbuildings (differences, if any, from the depreciation system for manufacturing industries in general) There are no differences between the depreciation system for newbuildings of vessels and that for manufacturing industries in general.

- ii) Detailed description of fiscal instruments in force.

- -- Depreciation schemes

- • Besides the normal depreciation schemes, there is a special depreciation schemes applicable to specified vessels.

- . Tax depreciation base: Acquisition cost of the vessel.

- . Schedules of depreciation: Either straight line or fixed-percentage depreciation can be chosen for each individual vessel.

- . Rate of depreciation:
 - 6.6 to 10 per cent for straight line depreciation.
 - 14.2 to 20.6 per cent for fixed-percentage depreciation.
- . Useful life: 10 to 15 years.
- . Residual value: 10 per cent of the acquisition cost (the upper limit of depreciation: 95 per cent).
- . Special depreciation: In the first account year of the use of a newly-acquired vessel, which satisfies certain conditions, for commercial operations, a certain proportion (either 12 per cent or 18 per cent according to the standard and the like of the vessel) of its acquisition cost is allowed for special depreciation in addition to the sum of the normal depreciation. If the special depreciation actually recognised for such first account year is less than the prescribed depreciation limit (12 per cent of the 18 per cent, whichever may apply of the acquisition cost), the difference can be carried over into the next account year.
- . Provisions of advanced depreciation running from the signing of the building contract: Nil.
- -- Investment tax credits: Nil.
- -- Provisions in force for the carry-forward and backward of losses.
 - Carry forward for five years and carry backward for one year are permitted for every industry including the shipping industry.
- -- Provisions for the formation tax free reserves for future investment: Nil.
- -- Corporate tax schedules and scheme imposed on the net income at a basic rate of 40 per cent for (29 per cent for smaller corporations).

B. Other fiscal measures related to investment in newbuildings: Nil.

4. Demolition and/or modernisation subsidies

With a view to eliminating the overtonnage, guarantees were extended by Facilitation Fund for Industrial Structural Adjustment to facilitate the borrowing of funds needed for the scrapping of oceangoing vessels meeting certain conditions, but this scheme was abolished on August 31, 1989, and no more such guarantees for new loans have since been provided. When effective, the scheme was applicable to demolition by foreign yards as well.

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

- A. Integration with groups or firms in other sectors: Nil.
- B. Development of new shipbuilding capacity abroad: Nil.
- C. Inter-yard co-operation to meet market conditions: Nil.

THE NETHERLANDS

Introduction

After several years of decline, the Dutch shipbuilding industry has gained strength in 1988. Most of the shipyards have substantially filled order-books and prices seem to have reached stability after a long period of downfall.

But due to fierce competition, the Dutch shipbuilding industry is still in a very weak condition. Especially the repair-industry, which has carried out substantial capacity reductions, is still in a period of severe restructuring.

The government's objective for the shipbuilding industry is to maintain a minimum shipbuilding capacity which can be regarded as viable in the long-term. The minimum capacity is roughly equivalent to an order-position of Dfl. 650 min. per annum (first half of the decade about 1,200 to 1,400 min. per annum).

During the last two years production has met this level. According to the order-books this level will be also achieved in the next few years. It seems that the policy to seek market niches in more sophisticated ships has borne fruit. Due to order-books of a more stable nature of the remaining yards, the amounts spent on research and development by these yards are increasing now, after some years of decline.

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing

Apart from ships purchased by the Royal Dutch Navy, the government also purchases ships for more specific official tasks on an irregular base.

Total government spending on sea-going, non military ships:

•	•	1986 :	2 ships	Dfl	3.8 min. •	124 Gt
•	•	1987 :	3 ships	Dfl	14.8 min. •	640 Gt
•	•	1988 :	2 ships	Dfl	18.5 min. •	802 Gt

Government procedure on acquisition of ships: According to EC-rule 88/295.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts: Nil.
2. Exemptions or rebates for indirect taxes on ships: Nil.
3. Tax treatment of shipbuilding

Not different from any other economic activity. 40 per cent Profits tax on profits less than Dfl 250,000. 35 per cent Profits tax on profits exceeding Dfl 250,000. Depreciation schemes based on historical value. Restructuring, no special tax treatment.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.
2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.
3. Contributions to research

The government contributes to the Waterloopkundig Laboratorium (which does research on waterways) and to the Maritime Institute of the Netherlands, private research bodies. The government also supports the Foundation for maritime research (CMO), which co-ordinates maritime research in the Netherlands. Private shipbuilding yards are eligible to up to 40 per cent subsidy of their research co-ordinated by this foundation. The government contributes Dfl 8.5 millions for research co-ordinated by CMO, Dfl 5.17 millions for the financing of the Maritime Institute of the Netherlands and Dfl 13.6 millions for the Waterloopkundig laboratorium.

Budget Expenditures
(in millions of DFL)

•	•	•	1987	:	27.27
•	•	•	1988	:	27.27
•	•	•	1989	:	27.27

4. Assistance for the development of shipbuilding capacity abroad: Nil.
- D. General facilities for financing the activities of yards
1. Direct aid to production:

In principle, a shipbuilding yard is eligible for a subsidy varying from 10 to 19 per cent of the contract price under the generic aid scheme 1988 to facilitate the acquisition of orders. This percentage depends on the value of the order, within fixed government budgets and boundaries set for every individual shipbuilding yard (21 per cent of its production value in a reference period).

The budgets available for the acquisition of newbuilding orders for the total shipbuilding industry are:

(in millions of DFL)

•	•	•	1987	:	30
•	•	•	1988	:	155
•	•	•	1989	:	100
•	•	•	1990	:	95

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation: Nil.

E. Export credit facilities

1. Provision of credits on favourable terms

Since 1988 shipbuilding yards have the possibility to give foreign customers credits on equal terms as the foreign competitor is offering (matching). This facility is not a specific shipbuilding aid, since this instrument is open for capital-goods producing industry as a whole.

Total amount of ship export credits
(in millions of DFL)

•	•	•	1987	:	101
•	•	•	1988	:	85
•	•	•	1989	:	315

2. Export credit insurance

As for matching, Dutch shipbuilders have the same possibilities to insure their credits at the Dutch Credit Insurance Bank, NCM. No subsidy, let alone a shipbuilding subsidy, is involved here. The costs of this insurance varies from 2 to 7 per cent of the contract price.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions: Nil.

2. Home credit schemes: Nil.

3. Tax treatment of shipping: Nil.

4. Demolition and/or modernisation subsidies

Demolition subsidies:

Owners of fishing vessels can get up to ECU 1800/Grt, when they either use a fishing vessel for other purposes than fishing, withdraw their fishing boat from the market, or sell their boat to a non-EEC owner. Investment in equipment to enhance the quality of catch is eligible

for 10 per cent national aid and 20 per cent European aid for vessels smaller than 59 m., and 10 per cent European aid for vessels which exceed 59 m.

Modernisation subsidies:

The Department of Transport and Waterworks can provide a subsidy of 5 x 2.5 per cent on the contract price of a seagoing merchant ship, irrespective of the building country of the ship. The ship has to operate under the Dutch flag. The purpose of this subsidy is to encourage shipowners to operate under the Dutch flag and therefore meant to compensate for the higher wages.

(in millions of Dfl)

	1987	1988	1989
Budget committed :	183	208.8	131.4
Budget expenditures :	105.9	133.8	146.2

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors: Nil.

B. Development of new shipbuilding capacity abroad: Nil;

since this kind of assistance would countervail the aims of the government's shipbuilding policy.

C. Inter-yard co-operation to meet market conditions

The Dutch shipbuilding yards are organised in the "Vereniging voor Nederlandse Scheepsbouwindustrie". This organisation looks after the mutual interests of its members.

NORWAY

Introduction

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing

With the exception of orders from the Ministry of Defence, government purchasing is rather limited. Government orders are normally placed following competitive tender. Ships are bought from domestic and foreign shipyards.

Annual volume of government orders in cgt

•	•	1986 :	3 ferries :	•	7,274
•	•	1987 :	4 ferries :	•	11,913
•	•	1988 :	3 ferries :	•	7,029

Government purchasing as a proportion
of the new orders recorded during the year
(in cgt and value)

•	•	•	in percentage of total cgt ordered	in percentage of value
•	•	1986 :	• 1.7	• 3.5
•	•	1987 :	• 6.3	• 3.7
•	•	1988 :	• 2.5	• 2.7

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

This arrangement was finished in 1987, but since the subsidy is not being paid out before the ship is delivered, there are still some payments left.

The amount of custom refunds are as follows:

(in million of NOK)

•	•	•	1987:	164
•	•	•	1988:	135
•	•	•	1989:	35
•	•	•	1990:	30

2. Exemptions or rebates for indirect taxes on ships

Ships, whether imported or not, are exempt from value added tax.

3. Tax treatment of shipbuilding

Shipbuilding is custom to standard taxation procedures applicable to all Norwegian companies.

C. Finance for investments and research

1. Facilities for the equipment of yards

There are no specific schemes for shipyards. Grants are provided by the Regional Development fund for investment and development of firms with up to 100 employees.

The maximum intensity of investment grants varies from 0 to 40 per cent of the project, depending on which region of the country is involved. Development grants are mainly given to support training of employees and may cover maximum 50 per cent of the project.

However, only a small portion under this programme was provided to shipyards. The payments per year to shipyards were:

(in millions of NOK)

•	•	•	1987	:	22.1
•	•	•	1988	:	2.9
•	•	•	1989	:	7.5

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

The publicly owned Industrial Fund offers loans for reorganisation and conversion of yards. These loans are granted for a period of 8 years (including a grace period of 3 years) at an interest rate of 11.5 per cent per annum (12 per cent per annum from 1.1.90). A fee of 0.5 per cent is charged for setting up the loan. The scheme is available to the Norwegian industrial sector as a whole and only a small portion has been or will be granted to the shipbuilding sector. No loans under this programme were granted to shipyards in 1987 or 1988.

The payments per year to shipyards amounted to:

(in millions of NOK)

•	•	•	1987	:	8
•	•	•	1988	:	33.5
•	•	•	1989	:	31.0

The Regional Development Fund offers loans as well. At the present time these loans have an interest rate of 12 per cent. Loans may be granted for a period of up to 25 years including a grace period of 1-2 years. Loans may cover 25 to 50 per cent of the project depending on where the yard is located.

This is also a general scheme and only a small portion of these loans was provided to shipyards.

The payments per year to shipyards were:

(in millions of NOK)

•	•	•	1987	:	16.7
•	•	•	1988	:	10.5
•	•	•	1989	:	19.9

3. Contributions to research

The publicly owned Industrial Fund also offers loans for research and development activities. Loans are granted for a period of 8-10 years including a certain grace period at an interest rate of 12 per cent p.a. (12.5 per cent from 1.1.90). This scheme is available to the Norwegian industrial sector as a whole and only a small portion has been or will be granted to the shipbuilding sector. Loans to shipbuilders under this programme:

(in millions of NOK)

•	•	•	1987	:	0
•	•	•	1988	:	43
•	•	•	1989	:	0

In addition: Grants to shipyards given by the Royal Norwegian Council for Scientific and Industrial Research (NTNF). The scheme is essentially oriented towards applied research on the field of high-speed crafts:

(in millions of NOK)

1989:	10
1990:	10

4. Assistance for the development of shipbuilding capacity abroad:

Assistance may only be given as part of development aid.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.

2. Provision or guarantees of finance on favourable terms

Interest rate subsidies are granted for construction loans for new vessels over 100 gt. and for extensive conversions. The minimum weight for conversion of domestic vessels is 100 gt, 1,000 gt for foreign ships. Subsidy payments are administrated by the private banks Eksportfinans and Norsk Skip Hypotekbank. The rates were reduced 25 per cent as of Oct. 12, 1989 so that the effective rates are:

- new vessels: • 1.8 per cent - 2.0 per cent
- conversions:• 1.1 per cent - 1.25 per cent

The amount of construction loan interest rate subsidies are as follows:

(in millions of NOK)

....1986:	76.8
....1987:	86
....1988:	75
....1989:	94

The government offers guarantees for construction loans. These guarantees normally cover up to 50 per cent of total construction costs on a pro rata basis. In special cases a guarantee may cover 75 per cent.

A mortgage on the ship and/or shipyard is required as security. The security provided to private banks must be equally shared with the government. The premium is 1 per cent of the outstanding. The government liability under the guarantee scheme is as follows:

(in millions of NOK)

....1986:	120.4
....1987:	173.8
....1988:	243.7

On December 31, 1988, government guarantees amounted to NOK 343.7 million under this programme.

Claims paid under the guarantee scheme:

(in millions of NOK)

....1986:	38.3
....1987:	0
....1988:	0

Applications for construction loans are evaluated and granted by private banks. Long-term financing must be arranged before a construction loan guarantee will be given.

3. Public ownership or participation: Nil.

In 1986 the publicly owned shipyard Horten Nerft went through compulsory composition. The yard was closed in 1987.

E. Export credit facilities

1. Provision of credits on favourable terms

Financing is given in accordance with the OECD's export credit terms for export of new vessels over 100 g.t. and conversion of vessels over 1,000 g.t. The privately owned Eksportfinans A/S is responsible for this financing. Eksportfinans administers government payment of interest subsidies but otherwise follows normal banking procedures. Financing is possible in foreign currencies but no guarantees for exchange risks are provided. No ship export credit on OECD terms were granted between 1986 and 1989.

As an alternative to this financing a cash payment scheme is available. (see F.1)

There are no special funds to facilitate ship credit exports to developing countries.

2. Export credit insurance

The Guarantee Institute for Export Credits, a public agency under the Ministry of Foreign Affairs, grants insurance for export credits on normal commercial terms against payment of a premium. The premium rates vary according to the risk covered, the length of credit, the buyer's country etc. Both political and commercial risks can be covered. The premium comes in addition to the interest rate stipulated in the Understanding.

No guarantees have been provided for ship export between 1986 and 1989.

Insurance is not available if the buyer chooses the cash payment scheme (see F.1).

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions:

As already mentioned the cash payment scheme is an alternative to the standard long-term financing. This scheme is available for both export and domestic orders placed at Norwegian yards. Shipowners, on their own, are responsible for arranging the financing. A government guarantee is not available under this programme.

The subsidy in the cash payment scheme is determined on the basis of a hypothetical loan over a period of 5 years, but such that the total subsidy is approximately equal to that on a standard 8.5 year loan for a domestic buyer in NOK. The subsidy is paid in annual instalments over five years. The subsidy under the cash scheme was also reduced 25 per cent as of October 12, 1989.

In October 1989 the nominal value of the subsidy for new ships was reduced from 16 per cent to 12.85 per cent. From 1.1.90 the principle in the subsidy arrangement was changed to a system where the shipowner gets the subsidy in one payment called contract subsidy. In February 1990 the subsidy rate of the contract subsidy was further reduced to 12 per cent of the contract price.

The budget expenditures associated with the cash payment scheme are as follows:

(in millions of NOK)

	• • 1987•	1988•	1989
To foreign shipowners for homemade ships	• 193•	257•	401
To national shipowners including Home Credit Schemes	• 419•	422•	356
• • _____•	_____•	_____	
TOTAL • •	612•	679•	757

2. Home credit schemes

Interest subsidies for long-term financing are granted for new vessels over 100 g.t. and for extensive conversion over 100 g.t. As a general rule this financing is based on a term of 8.5 years. The interest subsidy for a 8.5 year loan amounts to 6.5 per cent per annum. Financing for a shorter or longer-term than 8.5 years is also available, but the total subsidy remains the same. Loans are granted for 80 per cent of the contract price.

Private banks administer the programme and use standard banking procedures as criteria for assessing applications. Funding is available in national and in foreign currency. Building loan guarantees are described under D2.

The cash payment scheme is available as an alternative to this programme.

3. Tax treatment of shipping

There is no special tax treatment for maritime transport.

4. Demolition and/or modernisation subsidies

No subsidies are granted for demolition. As previously mentioned, subsidies are available for conversion (but not repair) of domestic ships over 100 g.t. if the conversion is extensive.

5. Operating subsidies

Such subsidies are only granted to local ferries and passenger boats.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors: Nil.

B. Development of new shipbuilding capacity abroad: Nil.

C. Inter-yard co-operation to meet market conditions

A large group of smaller yards in Western Norway have concentrated their sales effort, domestic and abroad in one organisation. This organisation is expanding and will include most Norwegian yards at the end of 1989.

SPAIN

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships

As a consequence of the entry of Spain into the EEC, customs duties on ships imports are being progressively reduced from present values (4.4 per cent for ships imported from EEC countries and 7.2 per cent for ships imported from non-EEC countries) to nil by 1993.

2. Import restrictions: Nil.

3. Government purchasing: Nil.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

Imported materials to be incorporated into ships for exports are considered as a temporary import and are exonerated from customs duties. For materials and parts to be incorporated in ships ordered by national shipowners a rebate is given as a partial compensation for customs duties paid. For exported ships the rebate is calculated after having deducted from the value of the ship the value of the materials temporarily imported.

Owing to the entry of Spain into the EEC, that rebate will be progressively lowered to nil by 1993, in accordance with the foreseen reduction of customs duties on imported materials and parts for ships.

The reduction has been and will be until 1993 as follows:

•	••Year•	•	% rebate
•	••1987•	•	4.25
•	••1988•	•	3.45
•	••1989•	•	2.60
•	••1990•	•	1.95
•	••1991•	•	1.25
•	••1992•	•	0.55
•	••1993•	•	0.00

2. Exemptions or rebates for indirect taxes on ships

From 1st January 1986 value added tax is being applied replacing previous indirect taxation systems. Ships for export and most of ships for national owners are exempt from value added tax. On the contrary, materials and parts to be incorporated into ships are not exempt from this tax, therefore a financial cost must be supported by shipyards for this reason.

3. Tax treatment of shipbuilding

There are no special tax measures or treatment in favour of the shipbuilding industry.

C. Finance for investments and research

1. Facilities for the equipment of yards

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards:

3. Contributions to research

Research is financed with funds generated by the technological development grant under the old scheme of direct aids in force for ships to which the construction permit was given before January the 1st 1987. The funds generated amount to some 1 000 million pesetas and 150 million pesetas in research and development projects.

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production

a) Production grant

- This grant is given on the following basis:
- -- 14 per cent of the contract value for newbuilding contracts of a value less than 6,000,000 ECUS;
- -- 18 per cent of the contract value for newbuilding contracts of a value ranging from 6,000,000 ECUS to 10,000,000 ECUS;
- -- 20 per cent of the contract value for newbuilding contracts of value ranging from 10,000,000 ECUS to 14,000,000 ECUS;
- -- 23 per cent of the contract value for newbuilding contracts of a value equal or more than 14,000,000 ECUS; and
-
- -- 20 per cent of the contract value for ship conversions.
- The above percentages may be reduced according to the proportion of work actually completed by the shipyard and also to take account of other aids received by the shipyard or the owner should this be the case.

b) Specific grant

- The rate of this aid varies, between 0 and 5 per cent of the contract value of 1987 and 1988 and between 0 and 3 per cent in 1989, according to characteristics of every contract.

This system of aids is in force for ships to which the construction permit was given on or after 1 January 1987 but to date this scheme is pending the EEC approval.

The amounts allocated to direct subsidies under the old system of aids in force for ships to which the construction permit was given before January the 1st 1987 are as follows:

•	••Year •	Millions of pesetas
•	••1986 •	• 8,697
•	••1987 •	• 12,814
•	••1988 •	• 16,004
•	••1989 (1)	• 5,460
•	•• •	• • (1) Until 30/06/90

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation

The public group National Institute for Industry (INI) owns all the shares of the Empresa Nacional Bazan de CNM, S.A. (BAZAN), Astilleros Espanoles, S.A. (AESAS) and Astilleros y Talleres del Noroeste, S.A. (ASTANO).

The first company (BAZAN) runs the naval dockyards and does not build merchant vessels at present. The two other companies (AESAS and ASTANO) account approximately for the 45 per cent of national capacity (cgmt) and 50 per cent of employment in the shipbuilding sector.

E. Export credit facilities

1. Provision of credits on favourable terms

Shipbuilding export credits are granted by private banks and by the Banco Exterior de Espana which support entirely the risk involved. From January the 1st 1986 the terms of these credits are in accordance with those of the OECD Understanding on Export Credits for Ships.

The annual amounts of export credits disbursed are as follows:

•	•• Year	• Millions of pesetas
•	•• 1987	• • 3,284
•	•• 1988	• • 11,505

Those credits are provided without any government support. Therefore the amounts related to this item in the annual state budgets were nil for the period 1986-1988. The same will apply to 1989.

There is a "Development Aid Fund" (DAF) which is allowed to use part of its resources for ship exports to developing countries. 5,680 million of pesetas were committed for this purpose in 1987.

2. Export credit insurance

Export credit insurance is written exclusively by the Compañia Espanola de Credito a la Exportacion, S.A. (CESCE) which is financed by public and private capital.

The total amount of export credits insured was:

•	••	Year	•	millions of pesetas
•	••	1987	•	• 16,835
•	••	1988	•	• 8,561

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions:

Fishing ship owners are entitled in some cases to direct aids ranging from 10 per cent to 30 per cent of the contract price of the ship provided they meet the requirements in force and there is budget available. Nevertheless these aids are taken into account and deducted from the total aid when the production grant, dealt with under paragraph D above, is calculated.

2. Home credit schemes

Shipbuilding for Spanish shipowners is financed by private institutions and also by the public Industrial Credit Bank. The terms applicable to home credits for newbuildings are as follows:

Maximum amount••:	85 per cent of the contract price
Interest rate••:	8 per cent
Repayment period••:	12 years (14 years in special cases)
•	•• from delivery of ship
Grace period••:	up to 2 years

The terms applicable to home credits for conversions are as follows:

Maximum amount••:	75 per cent of the value of the conversion
Interest rate••:	8 per cent
Repayment period••:	8 years
Grace period••:	up to 2 years

The government would subsidise interest rates of credits with a maximum of 3 points according to prevailing market interest rates.

The criteria followed for assessing home credit applications take into account the professional records of the applicant and the expected returns.

No government guarantees are granted for home credits.

The annual amounts allocated to this item were as follows:

•	••	Year	•	Million of pesetas
•	••	1986	•	• 12,198
•	••	1987	•	• 10,227
•	••	1988	•	• 23,928
•	••	1989	•	• 22,607

3. Tax treatment of shipping
4. Demolition and/or modernisation subsidies: Nil.
5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

- A. Integration with groups or firms in other sectors
Private yards in Spain have no special links with industrial groups.
- B. Development of new shipbuilding capacity abroad: Nil.
- C. Inter-yard co-operation to meet market conditions

The Union de Constructores Navales Espanoles (UNINAVE) is the association of the Spanish shipyards and it acts as an intermediary between shipbuilders and the Government and international organisations as well.

There is also the Spanish Shipbuilders Association (CONSTRUNAVES) that is an association of private shipyards only. It is concerned with commercial management particularly in connection with exports.

SWEDEN

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: Nil.
2. Import restrictions: Nil.
3. Government purchasing of ships

From 1983 the Government purchasing follows normal procedures.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

Imported materials for building ocean-going ships (whether built for export or for national owners) are exempt from customs duty.

2. Exemptions or rebates for indirect taxes on ships

Commercial ships exceeding a length of 12 metres and a beam of 4 metres (whether built in Sweden or imported) are exempt from value added tax.

3. Tax treatment of shipbuilding: Nil.

C. Finance for investments and research

1. Facilities for the equipment of yards: Nil.
2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.
3. Contributions to research: Nil.
4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.
2. Provision or guarantees of finance on favourable terms

On different occasions between 1963 and 1986, the Swedish Parliament provided guarantees within certain limits for loans obtained by Swedish shipyards or buyers from domestic or foreign credit institutions. During the actual period 1985 - June 1989 credit guarantees could be granted for:

- loans which Swedish shipyards obtain to finance credits to buyers of ship (refinancing loans, max. 90 per cent of price);
- loans which buyers obtain to pay ships under construction or for ships delivered (buyers loans, max 90 per cent of price); and
- loans which Swedish shipyards obtain to finance ships under construction (ship construction loans, max 70 per cent of price).

The shipyard pay a fee on outstanding guarantee sum. From July 1st, 1988 the fee is 1.25 per cent. The present frame of guarantees is 18,000 million S.kr. to cover old as well as new order's until the end of 1989.

In the spring 1989 the Swedish Parliament decided that Swedish shipyards can't receive credit guarantees from January 1st, 1990 described above with the exception of credit guarantees during construction time for the so called cash contracts. The guarantee frame for such contracts and to cover old orders will be 15,000 million Skr. from January 1st, 1990. The frame will gradually be reduced every year.

3. Public ownership or participation

In 1977 the Swedish Parliament decided to organise the Swedish state-owned shipyards into one company. On July 1st, the same year, the Swedyard Group (nowadays Celsius Industries) went into business as a shipbuilding and industry group. The Celsius Industries consist per July 1st, 1989 of the following shipyards: Kockums Marine AB, Karlskronavarvet AB and Cityvarvet AB. Kockums Marine AB and Karlskronavarvet AB have naval production while Cityvarvet AB is a repair yard. Total number of employees in these shipyards are about 2,400 persons.

E. Export credit facilities

1. Provision of credits on favourable terms

In 1978 the Swedish Government entrusted The Swedish Export Credit Board (SEK) with the administration of an officially supported export credit system, the State Support System. In 1979 ships were included. From 1978 SEK:s financing activities are carried out under two programmes, the Market Rate System (M-System) which is a continuation of the former activities and the State Support System (S-System).

SEK's lending activities under the S-System are regulated by a Government decree. The interest differential between lending rates and cost of funds as well as foreign exchanges losses are reimbursed by the Government in accordance with a separate agreement between the parties.

Within the S-System lending terms are based on the Arrangement and the Understanding on Export Credits for Ships. When financing in foreign currencies 0.25 per cent is added to the matrix rates and 0.25 per cent to the

WP6 rate. For Skr. 1.75 per cent is added. Of these surcharges, 0.25 per cent is harged to meet SEK:s operating costs. During the fiscal years 1987/88 - 1988/89 the Swedish Parliament has by decisions allocated totally 270 million Skr. to interest rate support for export of ships.

Budget expenditures related to interest rate subsidies for ship exports:

(in millions of SKr)

- ...1987: • 122.4
- ...1988:• 37.6
- ...1989:• 40.0 (estimate)

As described under "Home credit schemes" later the Swedish Parliament has decided that interest rate of support for domestic owners as well as for exports not valid for Swedish shipyards from January 1st, 1990.

• • •
2. Export credit insurance

Export credit insurance can be obtained from the Swedish Export Credit Guarantee Board (EKN) which is an institution acting on behalf of the Government. The premium rates vary according to the risks covered, the length of credit, the buyers country etc. Both political and commercial risks can be covered by EKN.

Outstanding Credit Guarantees
at December 31st
(in millions of SKr)

- ...1987: • 9,800
- ...1988:• 6,800
- ...1989:• 4,900

F. Assistance to customers:

1. Direct aid and loans repayable under certain conditions: Nil.
2. Home credit schemes

The Swedish Parliament has since 1976 several times decided on measures of assistance to the Swedish shipowners. The last time was in the spring of 1989. A Swedish buyer of ships at Swedish shipyards can per July 1st, 1989 normally obtain the following conditions, which also matches the OECD export terms of ships. These conditions have been valid since January 1985. The buyers can be granted credit amounting to 90 per cent of the ships contract prices (10 per cent in cash) over 12 years at 8.7 per cent interest rate if the contract is in dollars or 10.0 per cent if the contract is in Skr (guarantee fees and banking charges excluded). This home credit scheme is available for newbuilding and conversion of ships of 200 grt or more and valid until the end of 1989. From January 1st, 1990 the Swedish Parliament has decided the abolishment of this measure of assistance. (Both credit guarantees and interest of rate-support expire at that date.)

Budget expenditures related to the
interest rate support for domestic orders
(in millions of SKr)

- ••1987: • 210.9
- ••1988:• 192.7
- ••1989:• 175.4 (estimate)

During the fiscal years 1987/88-1988/89 the Swedish Parliament has by decisions allocated totally 460 million Skr to interest of rate-support for domestic buyers.

As an alternative to the above mentioned long-term financing (rate of interest-support) the shipowner can arrange the financing himself without governmental assistance and receive the same subsidies (cash contracts). The subsidies are paid to the shipowner in two annual instalments over five years and the total grant is a little better than the amount that would have been paid on the same contract under ordinary long-term financing. This alternative is available both for domestic owners and for export

From January 1st, 1990 and for the period 1990-1992 this support scheme will be available to the Swedish Shipbuilding Industry.

Budget expenditures associated
with the Cash Support Scheme
(in millions of Skr)

• ••	••	1987•	1988	1989
• To foreign • shipowners•	••	••	-• 3.3	8.0
• To national shipowners•	••	0.6•	3.9	8.2
• _____•	••	_____•	_____	_____
• Total•	••	0.6•	7.2	16.2

3. Tax treatment of shipping

Tax exemptions for seamen and 50 per cent decrease in social security-fees for the shipowners has resulted in a 40 per cent decrease in the maritiming cost.

4. Demolition and/or modernisation subsidies: Nil.

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

- A. Integration with groups or firms in other sectors: Nil.
- B. Development of new shipbuilding capacity abroad: Nil.
- C. Inter-yard co-operation to meet market conditions: Nil.

UNITED KINGDOM

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships

There are no duties on sea-going vessels with an overall length of 12 metres or weighing 100 kg or more, commercial fishing vessels and lifeboats designed as sea-going and tugs. Motor boats of less than 100 kg attract duty of 3.8 per cent. Ships, boats and other vessels imported for breaking up are free of duty.

2. Import restrictions

There are no quantitative restrictions on the import of ships and boats.

3. Government purchasing

Government orders are normally placed following competitive tender. The majority of Government orders are placed by the Ministry of Defence (Navy Department) for the Royal Navy. Payments by the Ministry of Defence to shipbuilding industry contractors were as follows:

	Financial Year	£ million
•	••	1985/86•• 556
•	••	1986/87•• 557
•	••	1987/88•• 676

These amounts exclude Admiralty supplied items such as armaments or engines purchased from a separate contractor.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

Customs duties are suspended in respect of goods intended for incorporation in ships, boats and other vessels of tariff sub-headings 89.01A, 89.01B1, 89.02B1 and 89.03A for the purpose of goods intended for fitting to or equipping such ships, boats or other vessels.

2. Exemptions or rebates for indirect taxes on ships

"Shipbuilding relief" is given in respect of certain indirect taxes borne by the shipbuilding industry and by industries supplying it. The rate of relief is two per cent of the value of ships delivered by the builder under contract, and represents the current average incidence of these indirect taxes on shipbuilding costs. Ships of 15 grt or more, except those designed or adapted for use for recreation or pleasure, are zero-rated for value added tax.

(in millions of pounds sterling)

•	••	1987	:	23.7
•	••	1988	:	45.8

- 3. Tax treatment of shipbuilding
- C. Finance for investments and research
- 1. Facilities for the equipment of yards

Provision or Guarantee of Finance on Favourable Terms. In those areas of Great Britain designated as Development Areas, Regional Development Grant was paid at a rate of 15 per cent toward capital expenditure on building works machinery and plant used in qualifying activities, which included shipbuilding, ship repairing and marine engineering until its abolition in January 1989.

Budget expenditures associated
with the regional development grant

(in millions of pounds sterling)

•	••	1986	:	124
•	••	1987	:	86
•	••	1988	:	315
•	••			

- 2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

Up to the end of 1986 the Government funded Shipbuilding Redundancy Payments Scheme exists to alleviate hardship among employees made redundant by British Shipbuilders and Harland and Wolff in areas of high and persistent unemployment. Thereafter both British Shipbuilders and Harland and Wolff introduced their own enhanced redundancy payments schemes similarly to ease restructuring within the industry.

- 3. Contributions to research

Research and development related to shipbuilding was partially funded by the Department of Trade and Industry for specific projects mainly undertaken at British Maritime Technology Ltd. Government funding for research and development specifically related to merchant shipbuilding ended from 31st March, 1990.

Actual Payments
(in millions of pounds sterling)

•	••	1987	:	6.973
•	••	1988	:	6.596

- 4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production

a) The Shipbuilding Intervention Fund, introduced in February 1977, continues in operation. The arrangement in force for the period 1 January 1987 to 3 December 1987 provided for a maximum intensity of grant support at 28 per cent of contract price ships costing over six million Ecu and 20 per cent for ships below that cost. From the 4th December 1987, the arrangement for the level of grant support was amended for smaller ships costing £10 million or less to build by the introduction of a sliding ceiling relating to the cost of build. The normal maximum for ships costing £10 million to build was set at 20 per cent, falling by three quarters of one percentage point for each one million pound reduction in the cost of build below 10 million. From 1 January 1989, the upper ceiling on aid was reduced to 26 per cent of the build cost and for ships costing less than six million Ecu, the ceiling was set at 16 per cent of build cost. Total Shipbuilding Intervention Fund support committed since the Fund's introduction to September 1989 is 370 million.

b) A similar Fund exists for Harland & Wolff PLC. The current arrangements (October 1989) there provide for a maximum intensity of grant support is 26 per cent of build cost. The actual payments for 1987 and 1988 were respectively of 17.4 and 16.2 millions.

2. Provision or guarantees of finance on favourable terms

Up until 1989, the major part of the UK merchant shipbuilding capacity was in public ownership in the form of the British Shipbuilders Corporation and in Northern Ireland, Harland and Wolff. By September 1989, all these facilities had been returned to the private sector.

x Total actual payments
(in millions of pounds sterling)

•	••	1987	:	115.1
•	••	1988	:	56.1
•	••	1989	:	Non applicable

3. Public ownership or participation

E. Export credit facilities

1. Provision of credits on favourable terms

The institution responsible for providing export credit facilities is the Export Credit Guarantee Department (ECGD). Both Buyer Credit and Supplier Credit is available, but Buyer Credit is the normally preferred route.

ECGD does not provide direct loans, but provides guarantees for loans made by banks which enables the banks to lend at fixed interest rates. Applications for such support are considered by a small underwriting team and the rank at which a case may be underwritten varies with the value of the contract. High value cases which expose ECGD to a risk of 20m or more are referred to ECGD's Advisory Council whose members are eminent industrialists etc. appointed by the Secretary of State for Trade and Industry, and which oversees ECGD's commitments. Cases which involve special risks or markets for which ECGD cover is restricted are referred to the Export Guarantees Committee which comprises representatives from other Government Departments which take an interest in ECGD's risks.

Credit terms offered are in compliance with OECD guidelines. Underwriting decisions are based, inter alia, on:

- a) the market risk and the availability of ECGD cover for that market;
- b) the creditworthiness of Buyer and, if different, the Borrower;
- c) Third Party Guarantees;
- d) availability of a mortgage and an assessment of second-hand values for the type of ship; and
- e) the performance record of the shipbuilder and the availability of recourse from the shipbuilder and/or parent company.

Finance with official support is available in several currencies. There are no statutory limits for the award of export credits by ECGD.

The official support as expressed in contract value for ship export credits is as follows:

(in millions of pounds sterling)
Financial year (ended on March 31st)

•	••	1987	:	3.8
•	••	1988	:	83.4
•	••	1989	:	3.7

100 per cent of ship exports have benefited from officially supported export credits.

There is a special fund to facilitate credits for export to developing countries.

Aid and Trade Provision grants and soft loans are administered by Department of Trade and Industry/Overseas Development Administration. Aid worthiness is considered interdepartmentally, case by case. There is no special allocation for ship exports.

2. Export credit insurance

The Export Credit Guarantee Department is authorised by the Export Guarantees and Overseas Investment Act 1978 to provide export credit insurance guarantees to United Kingdom exporters against a wide range of commercial and political risks. In most cases, guarantees represent up to 80 per cent of the contract value, but in some cases less. To define the security required, the mortgage 'worth' of the ship is assessed. (Typically 30 per cent to 40 per cent). This will depend on type of ship and its potential saleability in the event of default and foreclosure. Unless the buyer is considered to be sufficiently creditworthy, a mortgage is not considered to be sufficient on its own as security. Additional security is normally required by ECGD in the form of a bank guarantee but other additional security might be acceptable.

Average annual premium rate for a Government guarantee
or export credit insurance

Premium for export credit insurance guarantees is not paid annually for this type of business: it is usually paid in full when the loan documents are signed. Rates vary according to the risk (both buyer's country and security are taken into consideration) and can range from about 2 per cent to seven per cent.

The premium is paid separately. It is not added to the value of the contract although it needs to be initially costed into the overall contract price. It is not included in the interest rate.

The average actual premium rates charged on guarantees issued over the three last financial years is:

Year ended on March 31st

•	•	1987	:	2.05	pounds per 100 pounds
•	•	1988	:	2.25	"
•	•	1989	:	2.74	"

There is no annual budget expenditure associated with export credit insurance on ECGD. There is no annual statutory limit on the issue of Government guarantees.

Provisions for Government guarantees against exchange risks

ECGD does not offer an exchange rate guarantee as such: United Kingdom companies can hedge currency exchange risks by using the commercial forward exchange markets. However because losses would be incurred by companies which enter into commercial forward exchange contracts which later have to be unwound, ECGD offers "Tender to contract" exchange risk support. This protects the company against adverse exchange rate movements during the tender period enabling it to defer entering into forward exchange contracts until the

contract is actually awarded. Premium is charged on the amount covered and ranges from 2.5 per cent to 4.5 per cent according to the length of the tender period. A non-refundable 0.5 per cent of the premium is paid in all cases, but the balance is only payable if the company's tender is successful. No shipyards have used this cover in recent years.

Other aid provisions: Government insurance against an increase in production costs and against exchange rate fluctuations: conditions and annual premium rates.

We do not give these forms of cover, apart from the Tender to Contract exchange risk support mentioned above.

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions:

2. Home credit schemes

• i) Home Shipbuilding Credit Guarantee Scheme

• The Industry Act 1972 enabled guarantees to be given to UK shipowners in order that they may have access to credit facilities similar to those available to them abroad. The terms of the scheme conform with the OECD Understanding on Export Credits for ships. The Shipbuilding Act 1979 extended the scheme to cover alterations as well as construction and completion of eligible vessels

Interest rate support and grants to owners
for construction of fishing vessels
(in millions of pounds sterling)

•	••	1987	:	42.6
•	••	1988	:	40.8

Outstanding guarantees
(in millions of pounds sterling)

•		March 1988	:	721
•	•	March 1989	:	650

•ii) Tax allowances for the Acquisition of Ships

• No provision is made for the special treatment of ships. Capital allowances are calculated on a 25 per cent reducing balance basis and attract free depreciation. There are no investment allowances and no first year allowances.

iii) Loans for the Acquisitions of Fishing Vessels: Nil.

•iv) Fishing Vessel Grants

- Grants may be made through the Sea Fish Industry Authority for up to 30 per cent of the vessel's cost. When grants is provided, and the vessel is built in a UK yard, assistance under the Home Shipbuilding Credit Guarantee Scheme (if any) is reduced. Provision of grant is not tied to the construction of ships in the United Kingdom.

3. Tax treatment of shipping

4. Demolition and/or modernisation subsidies: Nil.

5. Operating subsidies

Under the Highlands and Islands Shipping Services Act 1960, financial assistance is payable for the maintenance of essential sea transport services to the remote and sparsely populated of the "Highlands and Islands development board" area of Scotland. The subsidy applies to both passenger and freight traffic. Internal ferry services in the Orkney Islands are also subsidised.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors: Nil.

B. Development of new shipbuilding capacity abroad

A number of private sector consultancy firms are engaged in providing design and technical assistance services overseas.

C. Inter-yard co-operation to meet market conditions

UNITED STATES

Introduction

The United States shipbuilding and repair industry shows further decline, with shipyards engaged in Navy work exhibiting guarded health while those relying solely on the commercial market exhibiting dim prospects. The United States shipyards have not received a contract for new construction of commercial vessels of at least 1,000 gross tons since 1984.

There have been no significant changes in structural trends with respect to public assistance programmes applicable to the United States shipbuilding industry and Government objectives over the past three years.

Direct United States Government expenditures in support of shipbuilding:
(\$ million)

•	••1986•	1987•	1988
•	•• 0.8•	1.4•	0.3

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships

The United States Government does not assess a customs duty on foreign built ships.

2. Import restrictions

The Capital Construction Fund (CCF) programme, under Section 607 of the Act, is a tax deferral programme for the construction, reconstruction, and acquisition of ships. The CCF programme requires the use of American materials and goods, if available, unless the requirement adversely affects the delivery schedule of the ship. However, no ships have been built under the programme since 1987.

3. Government purchasing of ships

There has been no government funding for the purchase of ships.

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts

An exemption of custom duties on imported materials may only be granted if a shipyard is located in a Foreign Trade Zone (FTZ). There is no shipyard located in a FTZ.

2. Exemptions or rebates for indirect taxes on ships

There is no exemption or rebate for indirect taxes on ships.

3. Tax treatment of shipbuilding

United States shipbuilding companies are subject to the identical tax regulations for corporate profits and depreciation that other manufacturing industries adhere to. There are no fiscal measures to encourage development, restructuring or withdrawal of shipbuilding capacity.

C. Finance for investments and research

1. Facilities for the equipment of yards

There are no public sources to finance the equipping of United States shipyards.

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards

Shipyards involved in the construction of merchant ships are privately organised. There is no public funding contributing to the reorganisation or conversion of private shipyards.

3. Contributions to research

Research activities conducted by private shipbuilders may receive a funding through the National Shipbuilding Research Program which has as its objective the promotion of shipbuilding technology. Modest resource funding for approved research projects is currently provided by U.S. Department of the Navy and several leading U.S. shipyards. U.S. Government funding was \$800,000 in 1986; \$1.4 million in 1987; and \$300,000 in 1988.

4. Assistance for the development of shipbuilding capacity abroad

There are no provisions for the development of foreign shipbuilding capacity.

D. General facilities for financing the activities of yards

1. Direct aid to production

Title V of the Act, Construction-Differential Subsidy, provided a direct Federal grant for the construction of U.S. flag merchant ships. However, no public source funding has been provided since 1981.

The yearly outlays related to the construction differential subsidy are as follows:

•	••	(in millions US Dollars)	
		(pay back)	
•	••	1986	: -0.4
•	••	1987	: 0.4
•	••	1988	: 1.2
•	••	1989	: 0

2. Provision or guarantees of finance on favourable terms

Title XI of the Act, Federal Ship Financing Guarantees, is available to U.S. shipowners, to assist in obtaining commercial loans from private financial institutions. The terms of such loans are strictly commercial. There is a substantial shipowner equity requirement (at least 25 per cent of actual construction cost) and there is no special loan repayment schedule. All payments must be made in standard timely fashion. The actual financing is provided by private institutions at an interest rate negotiated at the time of the loan. No state, regional or local ship financing programmes are available.

Title XI Federal Ship Financing Guarantees
(in millions of US dollars)

•	Fiscal Years	New guarantees	•	Payments under
•	••	issues	outstanding	commitments
•	1987•	0	••	4,278
•	1988•	21.7	•	3,873
•	1989•	0	••	3,602

3. Public ownership or participation

There is no public equity capital position in the private shipbuilding industry.

E. Export credit facilities

The Federal government does not provide any programme to support the export of ships from private shipyards.

1. Provision of credits on favourable terms

2. Export credit insurance

F. Assistance to customers

1. Direct aid and loans repayable under certain conditions

There has been no direct construction aid or conditional loans provided to shipbuilders since 1981.

2. Home credit schemes

There are no home credit schemes for shipowners.

3. Tax treatment of shipping

The tax treatment for maritime transport follows the IRS Code, 1986. This is a standard tax treatment for all United States industry. Depreciation rules follow the guidelines established by the IRS. Most vessels have a 10 year class life, with depreciation based on 200 per cent declining balance method. The only special tax consideration given to the maritime transport community is the opportunity to establish capital construction funds or construction reserve funds which enable the shipowner or lessee to defer certain taxable income with the understanding that those dedicated monies will be utilised for ship acquisition or ship work (construction or reconstruction) in the United States shipbuilding industry. When the funds are used to construct a vessel, the basis from which depreciation is calculated is correspondingly reduced.

Capital Construction Fund
(deferred income taxes)

Net tax-free withdrawals
(millions US dollars)

•	••	1987	353
•	••	1988	11
•	••	1989	n.a.

Construction Reserve Fund
(net deferred capital gains withdrawals)

(in millions of US dollars)

•	••Fiscal Year		
•	••	1988	\$ 500,000
•	••	1989	+1,700,000 (net deposit)
•			

4. Demolition and/or modernisation subsidies

Title V of the Act includes Section 510 which provides for trade-in of obsolete vessels in order to promote the construction of vessels to carry the domestic and foreign commerce. Obsolete tonnage may be acquired by the government in exchange for an allowance of credit for new tonnage. The allowance of credit is applied to the new vessel construction cost. This programme has not been funded since 1981.

5. Operating subsidies

Title VI of the Act Operating-Differential Subsidy (ODS), is available to U.S. flag-vessels which operate in essential foreign trades. The purpose of ODS is to offset certain lower ship operating costs, principally wages, of foreign competitors. During fiscal year 1989 net subsidy outlays amounted to approximately \$212.3 million; 233.2 million in 1988; and 227.4 million in 1987.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors

Capital investment in the shipbuilding industry is a private venture decision.

B. Development of new shipbuilding capacity abroad: Nil.

C. Inter-yard co-operation to meet market conditions

There is no known inter-yard co-operation to share the available market for United States shipbuilding. Any such co-operative arrangement would run counter to United States anti-trust laws.

REPUBLIC OF KOREA

I. ASSISTANCE FROM PUBLIC SOURCES

A. Protection of the national market

1. Customs duties on ships: 2.5 per cent to 5 per cent by type of ships.
2. Import restrictions: Nil.
3. Government purchasing

Government purchases ships mainly for the Ministry of Defence and the Maritime Safety Policy. Government purchasing of such ships is not subsidised. The tonnages of ships which the Government purchased in the recent fiscal years, except the ships for the Ministry of Defence are:

Annual volume of government purchasing of ships
(in gt)

•	••	1985	∴	509	
•	••	1986	∴	2,573	
•	••	1987	∴	942	
•	••	1988	∴	442	
•		1-11	1989	∴	573

Government purchasing as a proportion of the ships completed per year (in gt):

•	••	••	Percent		
•	••	1985	∴	0.018	
•	••	1986	∴	0.095	
•	••	1987	∴	0.049	
•	••	1988	∴	0.013	
•		1-11	1989	∴	0.024

B. Fiscal assistance to shipyards

1. Customs duty exemption or rebates for imported materials and parts: Nil.

The imported materials and parts which are used for ships for export are exempted from the customs duty. But customs duty exemption for imported materials and parts are applied not only to ships for export but also to all export goods.

2. Exemptions or rebates for indirect taxes on ships: Nil.

No V.A.T. in case of export.

3. Tax treatment of shipbuilding: Nil.

Note:

- . Under the Korea Tax Reduction and exemption Control Law, there are Export Tax Reserve and Accelerated Depreciation Systems. However, those are not preferential support for the shipbuilding industry but a part of general support for the whole industry. And there have been no actual results since 1986 because of the cumulative losses of the shipbuilding companies.
- . According to the rationalisation programme for the shipbuilding industry, the Daewoo Business Group, which owns 81 per cent equity share of DSHM, and the Hanjin Business Group, which took over the management of KSEC, will receive the following tax incentives.
- Daewoo Business Group:
 - -- Exemption of corporate and stock transaction taxes on the Daewoo Business Group's sales of four subsidiaries, stocks and real estate.
 - -- Ease of restrictions (or permission) on investment by the Daewoo Business Group in DSHM.
 - [At present, all subsidiaries of business conglomerates are forbidden to invest among themselves to prevent economic concentration in their hands.]
 - -- Exemption of acquisition, registration and corporate taxes when DSHC merges with subsidiaries.
- Hanjin Business Group:
 - -- Ease of restrictions on investment by the Hanjin Business Group in KSEC.
 - -- Exemption of acquisition and corporate taxes when KSEC merges with subsidiaries. Such tax incentives under the rationalisation programme are not special assistance measures for the shipbuilding industry, but applied to all industries or companies if they are designated as the objects of industrial rationalisation programme by the Industrial Development Law and Tax Reduction and Exemption Control Law.
 - -- The example of industries and companies designated as the objects of industrial rationalisation are as follows.
 - .•Shipping Industry, Oversea's Construction Industry, LPG Import Business, Korea Synthetic Chemical Industry Co., Ltd., etc.

C. Finance for investments and research

1. Facilities for the equipment of yards

No special financing facilities are granted in favour of the shipbuilding industry.

All financial institutions including the Korea Development Bank, the Korea Long-term Credit Bank and commercial banks grant the financing for facility investment on the commercial basis for the entire industries. But there is no government assistance by way of budget expenditures and guarantees. The terms for loans are listed below:

-- Interest rate

•	•••	within 1 year•	within 2 years
•	•••	(per cent)•	(per cent)
•	short term•	_____	

•	••prime rate	•	10.0•	•10.5
•	••interest rate	•	10.5•	•11.0

•	•••	within 2 years •	more than 5 years
•	•••	(per cent)•	(per cent)
•	long term•	_____	

•	••prime rate	•	11.4•	•11.9
•	••interest rate	•	11.9•	•12.4

-- Grace period: within 5 years

-- Repayment period: within 20 years.

• Amount of new KDB loans extended to the shipbuilding industry.

(in billion won)

1987 :	117.3
1988 :	39.8
1989 :	83.8

2. Loans, guarantees or grants for the reorganisation and conversion of shipyards: Nil.

KDB's financing to DSHM (Daewoo Shipbuilding & Heavy Machinery Ltd.) in 1989: For the normalisation of DSHM, the Daewoo Business Group, a main shareholder, invested 233.4 billion won in 1989. For matching Daewoo Group's scale of investment, KDB, the other shareholder and also a major creditor, rescheduled the payment of an existing debt of 220.4 billion won i.e. DSHM was allowed to repay its DKB loans of 220.4 billion won in a 10-year instalment plan after a grace period of seven years.

3. Contributions to research

There is no research fund for the shipbuilding industry in Korea. The assistance for the shipbuilding industry concerning research and development is granted as a part of the general assistance for the whole industries.

4. Assistance for the development of shipbuilding capacity abroad: Nil.

D. General facilities for financing the activities of yards

1. Direct aid to production: Nil.

2. Provision or guarantees of finance on favourable terms: Nil.

3. Public ownership or participation

a) The public stake in the shipbuilding industry

- The Korea Development Bank (government owned) had 49 per cent of the equity capital of Daewoo shipbuilding & heavy machinery Ltd. at the time of establishment.
- Now DKB have 28 per cent as of December 1989.
- Thus, control power over the company belongs to the chairman of the Daewoo Group, who has the major proportion of the shares.

b) The annual budget expenditure for the acquisition of public stakes: Nil.

c) The arrangements and annual budget expenditure for covering yard operation losses: Nil.

E. Export credit facilities

. Institutions responsible for providing credits, guarantees and/or export credit insurance mechanisms.

- -- The Export-Import Bank of Korea (KEXIM) is responsible for providing for credits, guarantees and export credit insurance.
- -- Both buyer credit and supplier credit are used.

. Procedures and criteria for examining loan applications.

• -- Qualifying Criteria

- The buyer has to make cash payments not less than 20 per cent of the contract amount, prior to the delivery of the ship.
- The loan would be unconditionally guaranteed by a first class bank or buyer country's government or central bank.

- -- Method of Formal Application
- The exporter should consult with the Korea Exim Bank in the early stages of negotiations with the buyer as to the project and loan conditions. The borrower should submit a loan application to the bank with the information necessary for the bank to appraise the proposed transaction.
- -- Finance Terms
 - . Amount:
 - .Concerning the export contract value, after deduction of the downpayment, the Korea Exim Bank extends up to 85 per cent of the net contract value. Co-financing banks extend the remainder.
 - .Term: 8 1/2 years
 - .Interest rate: 8 per cent per annum
 - .Korea Exim Bank's loan is determined in line with OECD Guidelines.
 - .Fees / premiums:
 - .Commitment fee of 0.5 per cent per annum on undrawn balance. No other fees are charged.
- . With regard to credits for export of ships:
 - -- Possibilities of obtaining finance in currencies other than the national currency:
 - .Foreign currency is mainly U.S. Dollar but Yen, Deutschmark and Swiss Franc currencies are also available.
 - -- Provisions for government guarantees against exchange risks:
 - . No government guarantees against exchange risks are available.
- . With regard to government guarantees and credit insurance for the export of ships:
 - -- Premium income as a percentage of medium and long-term business insured is 0.86 per cent in 1988.
 - -- The premium is paid separately, not included in the value of the contract and the interest.

- . Security requirements for the award of government guarantees and/or ship export credit insurance:
 - -- No security is required for the award of ship export credit insurance.
- . Other aid provisions: Government insurance against an increase in production costs and against exchange rate fluctuation: conditions and annual premium rates.
 - . There is no system of government insurance to cover an increase in production costs and the exchange fluctuation risks.

Annual amount of ship exports provided
(US \$ Million)

• 1985•	1986•1987•	1988•1989	1 - 11	
• 758.4•	420.3•456.9•	640.7•	513.3	

- Annual budget expenditure for support concerning ship export credits
 - . The financial resources of the Korea Exim Bank financing comprise capital contributions from the Bank of Korea, the foreign exchange reserves of the Bank of Korea and repayment of loans by the bank's customer, but include no expenditure from the government.
 - The value of ship exports for which export credits have been obtained as a percentage of the total value of ship exports.

(Percentage)

• 1985•	1986•	1987•	1988•	1989	1 - 11
• 89.2•	75.4•	64.4•	50.8•	86.2	

Special fund to facilitate credits for export to developing countries:

- . There is no special export credit system for developing countries.

Annual statutory limits for the award of export credits
(won billion)

•	1986•1987•	1988•	1989	1 - 11
•	940• 920•	820•	480	

1. Provision of credits on favourable terms
2. Export credit insurance
 - a) The average annual premium rate for government guarantees and ship export credit insurance -- to cover political and commercial risks -- as a percentage of the amount of credits provided.
 - . Premium income as a percentage of medium and long-term business insured is 0.86 per cent in 1988.
 - b) The annual amount of guarantees issued and annual budget expenditure on export insurance credit.
 - . In 1988, total amount of business covered by the export credit insurance scheme was US\$ 295 million and the annual budget expenditure was US\$ 4 million.
 - . But this scheme is applicable to not only export of ships but also export of other projects such as plant, machinery and vehicle.
 - c) The annual statutory limits for the issue of government guarantees and ship export credit insurance.
 - . Annual statutory limit for all types of export credit insurance is about US\$ 2 billion.
 - . However, there is no ceiling for any specific project including ship export.
 - .
- F. Assistance to customers
 1. Direct aid and loans repayable under certain conditions: Nil.
 2. Home credit schemes
 - a) Implementing body: The Korea Development Bank (KDB)
 - b) Outline of the system:
 - Whereas the KDB finances the construction of Korea flag ocean going vessels and coasting ships, this system has no advantage compared to that of any other country.
 - c) Procedures and criteria for assessing home credit applications. The KDB, upon receipt of an application from a prospective borrower, examines whether or not the applicant has adequate performance records, credit-worthiness etc. and select actual customer.
 - d) Financing terms:
 - -- Ratio of downpayment: contract: 10 per cent
 - within 3 months after contract: 10 per cent

- -- Interest rate:
 - ..Ocean-going ship: Libour + 2 per cent
 - ..Coasting ship: 10.5 per cent
 - •but in case of foreign currency Libour + 1.25 per cent
- -- Repayment period: within following period:
 - ..Ocean-going ship: maximum 13 years
 - •(including a grace period of five years)
 - ..Coasting ship: maximum 10 years
 - •(including a grace period of three years)
 - •but in a case of foreign currency: maximum 10 years
 - •(including a grace period of one-third of repayment period)
- -- Possibility of funding in foreign currency
- ..When foreign material is imported, the KDB finances in foreign currency at 80 per cent of the needed funds.
- -- Proportion of finance: within 80 per cent.

e) Government guarantees for home credit schemes.

- -- No government guarantees are available.

Sums of fund accommodated
(Billion won)

• Fiscal year •	• Ocean going ship •	• Coasting Ship
• 1986 •	121	•• 13
• 1987 •	152	•• 11
• 1988 •	170	•• 9

- •Note: Foreign currency loan excluded.

• Annual budget expenditure for support of home credit schemes:

- -- The financial resources of the KDB financing had consisted of the funds raised by the government and the KDB funds until 1986 (ratio of 7:3). After 1987, however, all resources were fully raised by the KDB in the domestic capital market.

Domestic ship orders funded by home credits

Year	1986•	1987•	1988•	1989-11
Orders (thousands gt)	549.7•	542.5•	443.2•	253.2
Proportion of total ship orders (per cent)	15.7•	14.6•	14.6•	10.9

3. Tax treatment of shipping

Depreciation schemes for newbuildings

- . Tax treatment concerning the depreciation scheme for newbuildings (differences from the general scheme for the manufacturing industry):
- There are no differences from the general scheme for the manufacturing industry.
- Description of fiscal instruments in force, eligibility conditions and terms:
 - -- Tax depreciation base: Acquisition cost of the vessel;
 - -- Schedules and/or rates of depreciation: Provided by the Corporation Income Tax Law in Korea, all the corporations including the shipping companies are allowed to choose between the straight line depreciation and the fixed-percentage depreciation. Rate of depreciation is as follows:
 - 5.5 to 8.3 per cent for the straight line depreciation.
 - 12 to 17.5 per cent for the fixed-percentage depreciation.
 - -- Useful life: 12 to 18 years.
 - Residual value is 10 per cent of the acquisition cost.
 - -- Special depreciation allowances over and above normal depreciation: A shipping company is allowed for special depreciation within the limits of half of the normal depreciation allowances. But the special depreciation allowance should not be over more than a half of the sum of the special depreciation allowance and the net-profits derived during the taxable years.

- -- Provisions of advanced depreciation running from the signing of the building contract: Nil.
- -- Investment tax credits: Nil.
- -- Provisions in force for the carry forward and backward of losses: Nil.
- -- Provisions for the formation of Tax free reserves for future investment: Nil.
- -- Corporation tax schedules and scheme: The Corporation income tax is imposed on the net income at a basic rate of 33 per cent for most of the shipping corporations in general.
- . Other fiscal measures related to investment in newbuildings: Nil.

4. Demolition and/or modernisation subsidies: Nil.

5. Operating subsidies: Nil.

II. ASSISTANCE FROM NON-PUBLIC SOURCES

A. Integration with groups or firms in other sectors: Nil.

B. Development of new shipbuilding capacity abroad: Nil.

C. Inter-yard co-operation to meet market conditions: Nil.

a
END-OF-TEXT