

## **Europe is left stranded at OECD talks**

A RETREAT by the Japanese Government in world shipbuilding talks has left Europe struggling alone against China and South Korea, according to insider reports.

Japan, until now a European ally on the sensitive issue of pricing policy, has thrown in the towel, leaving Europe in a minority of one.

The change in position during the latest round of Organisation for Economic Co-operation and Development talks makes it less likely the EU will achieve its aim of stabilising world production through more transparent pricing. Europe has accused South Korea, the world's largest shipbuilder, of destabilising the market by offering ships at below cost.

"Japan has become less supportive on pricing," said a source close to the European delegation. "They want an agreement so badly that they are willing to compromise on this issue. They are afraid of the growth in Chinese capacity and believe that if they get an agreement on subsidies the Chinese might be more disciplined."

Pricing and subsidies are the two key elements of the OECD talks, which have been dragging on without progress for the last two years. The four parties, which together account for almost all world shipbuilding, are looking to come to a definition of prohibited and non-prohibited subsidies in an attempt to help put an end to the boom and bust cycle which has required governments to step in to save yards from bankruptcy.

But Europe's push for a meaningful list of prohibited subsidies is also reportedly making little progress at the Paris talks. "There are currently 12 items on the list of 'non-actionable' subsidies, including rescue aid, which is the worst of all types of subsidy. People are starting to ask why you need an agreement at all," an EU source said.

"Some of the people sitting around the table do not want an agreement," Patrick Boissier, chairman of the Committee of EU Shipbuilders Associations (Cesa), said in January.

Another talks participant said the Japanese were mainly worried time was running out. "They are concerned there is a lack of time to come to an agreement before the end of 2005 so they suggested we concentrate on subsidies before going back to pricing. But the problem is there are still significant divergences between the delegations on subsidies too. The Chinese in particular want a very limited list of prohibited subsidies."

2005 is widely believed to be the last chance for an OECD shipbuilding agreement. The participants' negotiating mandate expires at the end of this year and few believe it will be renewed. An attempt in the early 1990s to implement a worldwide agreement also failed.

European constructors fear South Korea and China — a fast emerging power in the industry — would be happy to see the talks end in failure. The two Asian economies together account for around half of world orders, against just 15% for the EU.

The inconclusive findings of a World Trade Organisation panel on alleged unfair practices by South Korea, as reported yesterday in Lloyd's List, have increased gloom

in Europe. The findings did not condemn South Korea's bailing out of its shipyard industry, a widespread practice after the Asian economic crisis of the mid-1990s.

Temporary aid to the EU, while the dispute panel considered its verdict, will cease at the end of March. This is likely to lead to price increases for some European vessels.

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