

WTO tells South Korea to end illegal yard aid

The World Trade Organisation has ordered South Korea to withdraw illegal shipbuilding subsidies within 90 days.

This is a partial victory for the European Union following its complaint to the WTO, but Brussels lost out on two other claims against the world's largest shipbuilding nation.

The WTO's final report on the protracted battle between the two sides has ruled that South Korea provided prohibited export subsidies to its shipbuilders in the form of individual transactions with the state-run Korean Export-Import Bank (KEXIM).

The WTO arbitrators ruled: "Taking into account the procedures that may be required to implement our recommendation on the one hand, and the requirement that Korea withdraw its subsidies 'without delay' on the other, we recommend that Korea withdraw the individual APRG (advance payment refund guarantee) and PSL (pre-shipment loans) subsidies within 90 days."

However, the WTO rejected the EU's claims that South Korea, by providing subsidies, had "caused serious prejudice to the interests of the European Communities".

The EU claimed these subsidies were provided to Daewoo-Shipbuilding and Marine Engineering/Daewoo Heavy Industries, Samho Heavy Industries/ Halla Heavy Industries, and STX/Daedong through support for workout plans and restructuring plans, tax concessions, and the grant of KEXIM APRGs and pre-shipment loans.

Reinhard Luken, secretary general of the Committee of EU Shipbuilders Associations, said the WTO's 185-page final report was essentially the same as its interim report.

"There are some points for both sides and therefore it is in a way inconclusive," he said.

"You could have a long debate about whether there is a 50-50 or 60-40 split, but whatever is the case, what we were hoping for we did not get: that is, a clear ruling to support the OECD negotiations [on shipbuilding].

"That momentum is now lacking." EU shipbuilders are now relying on negotiations at the Paris-based Organisation for Economic Co-operation and Development to set international standards for yard aid.

The EU's shipbuilding dispute with South Korea has been rumbling on in one form or another for more than two years.

Europe argued that subsidies were enabling South Korean yards to sell ships at less than the cost of production.

In January, EU Industry Commissioner Guenter Verheugen said the community might have to renegotiate aid to shipbuilders after the WTO arbitrators found that South Korean competitors benefitted from the export subsidies.

EU governments have extended an option of state aid for shipbuilders until the end of this month to help European companies combat the allegedly unfair competition from South Korea.