

PRIME MINISTER

## SHIPBUILDING: MEETING OF E(A) 10 MAY

You saw some of the papers over the weekend and concentrated on the Cabinet Office brief. We have also received today Mr. King's paper on Harland and Wolff.

The various papers below are:

Flag A - Cabinet Office brief. I suggest you use this to steer the discussion.

Flag B - Mr. Clarke's paper, advocating an early announcement ending intervention support for public sector yards in Great Britain and at Harland and Wolff.

Flag C - Mr. King's paper, just received, in which as anticipated, he argues that he must carefully examine the Tikko proposition when it is received, which "makes July the likely time for the real decision". But he does not object to an early statement on BS as long as it does not pre-empt decisions on Northern Ireland.

Flag D - correspondence between the Chief Secretary, Mr. Clarke and Mr. Rifkind on the financing of a package for Sunderland and Govan. Positions are moving closely.

Flag E - George Guise's note strongly supporting an early announcement terminating the Government's subsidies at all State-owned yards.

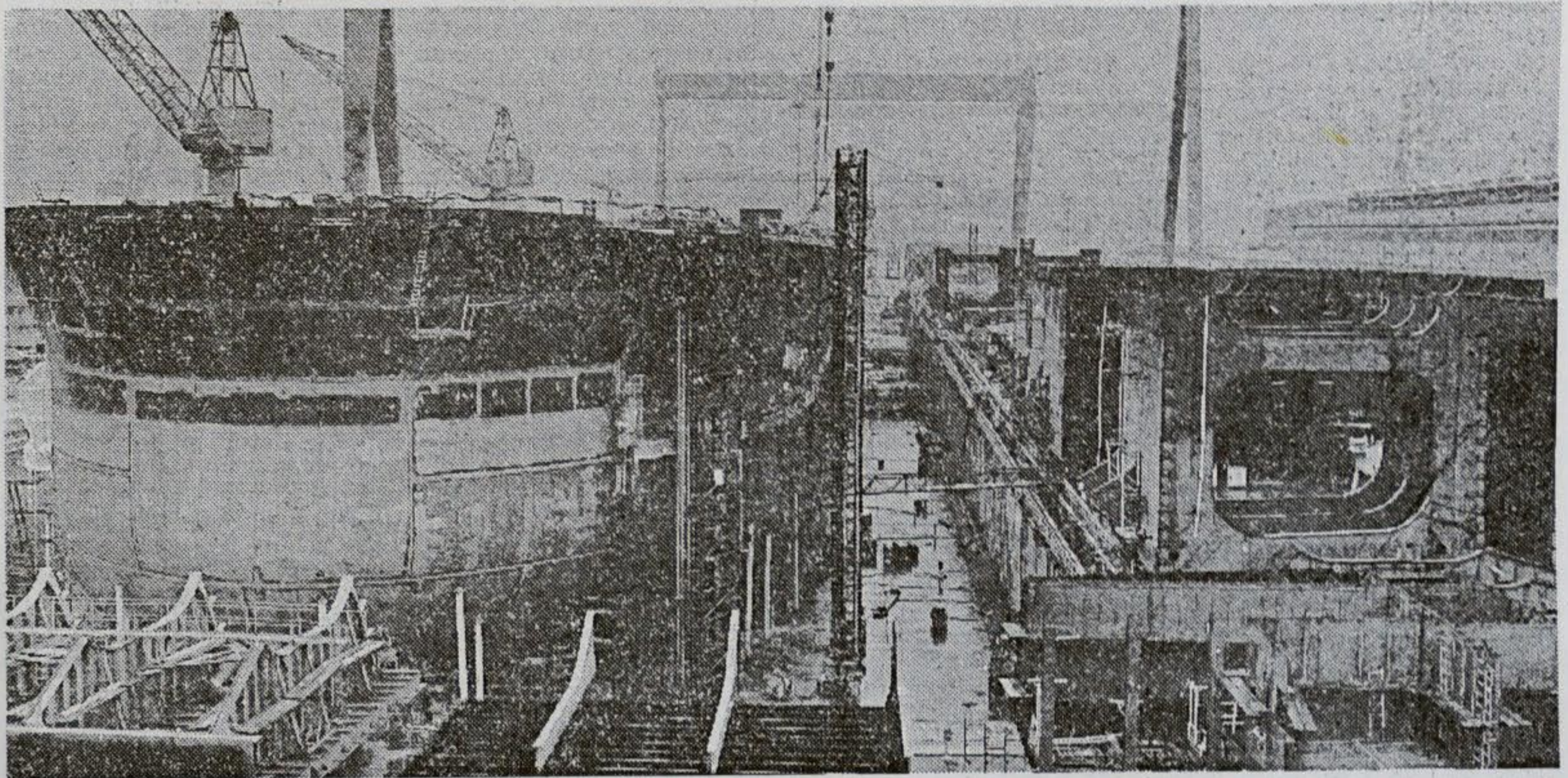
*Patricia A. Parker.*

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9 May 1988

## Shipbuilding: now most of the companies are in the red



The Hyundai shipyards at Ulsan

# No plans to cut capacity

KOREA'S TROUBLED shipbuilding industry is set for another stormy year with increased labour costs, diminished order books and a more expensive currency to contend with.

However, officials still talk confidently of an upturn by the end of the decade. Although order books are still bulging with backlogs, shipbuilders reported a slump in the first quarter of this year, with only 50 per cent of the orders obtained for the corresponding period last year.

Ships ordered a couple of years ago at lower prices will not help balance the books and prices have already risen this year.

A Korean Shipbuilding Association official said in a recent interview that a very large crude carrier which cost \$50m at the end of 1987 is now priced at \$61.5m. "And it's quite likely that will rise still further."

Although the workforce has been cut - to 52,000 at the end of 1987 from 73,000 in 1985 - it is a lot more expensive.

The industry was hit by crippling strikes in the autumn and again last month. A 21-day strike at Daewoo Shipbuilding and Heavy Machinery closed the shipyard for 11 days and ended in a

19 per cent rise in basic pay for its workers. Trouble is also brewing at Samsung and Hyundai.

Although most Korean shipbuilders are still deeply in the red (Daewoo lost Won 69.4bn last year, up from Won 44.6bn in 1986), 1987 was a relatively good year. Orders rose 27 per cent to 3.4m

And on a recent visit to Seoul, Mr Pekka Laine, president of the Finnish shipbuilding giant Wärtsilä, estimated worldwide shipping tonnage at present at 12m tonnes. Yet worldwide capacity is between 12m and 17m tonnes.

"There will never be a demand for more than 15m tonnes, there-

tive. Second, unlike the latter countries, they receive no state subsidy. Third, their financing is more expensive than that of Japan.

In Japan, interest rates are as low as 5 per cent, while in Korea shipbuilders are fortunate to secure a rate of 8 per cent and they have to pay it back within five years. South Korea also relies heavily on Japan for parts. About 80 per cent of imported parts come from Japan and the rising yen makes them very expensive for Korean shipbuilders.

As far as shipbuilders are concerned, the good thing about ships is that they are made of steel and steel rusts. The present world fleet is about 20 years old: soon it will need to be replaced. The question is whether the Korean industry, which commands a 19 per cent share of the world market, can hang on until then.

The KSA is convinced it can. "Our research shows that the market will recover and we will get more orders," the official says. "In two or three years, our prospects will improve."

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gross tonnes while the backlog rose 34 per cent to 5.8m gross tonnes. However most of the profit was eaten up in higher material costs.

For the first time since the market began its nosedive 12 years ago, the European Community and Japan are moving towards an agreement to reduce capacity. Once this has been achieved, pressure will be put on Korea and Finland to do the same, according to a Seoul-based shipping analyst.

fore there is undoubtedly excess capacity," he said.

At present, there is no indication that Korea intends to reduce its capacity. Last month the Government reprieved the ailing Korea Shipbuilding and Engineering Corporation by approving a 20-year moratorium on capital repayments and interest.

The KSA believes that three factors give the EC and Japan an edge over Korea. First, higher labour costs and the dearer won make their prices less competi-

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