A MARITIME INDUSTRIAL STRATEGY

STRENGTHENING THE EU'S MARITIME INDUSTRIAL CAPACITY TO THE BENEFIT OF EUROPE

TIME FOR ACTION

EXECUTIVE SUMMARY

Considering the impact from the pandemic crisis, the risks from increased geo-political tensions, and the anticipated adverse effects from the US Inflation Reduction Act (IRA), SEA Europe urges the European Commission and EU Member States to **adopt prompt (sectoral) actions in support of Europe's shipyards and maritime equipment manufacturers** (known as "*European maritime technology industry*").

As stated by Commission President Von der Leyen at the World Economic Forum in Davos, "*the road to net zero means developing and using a whole range of new clean technologies across our economy: in transport, manufacturing, energy … To get ahead of the competition, we need to keep investing in strengthening our industrial base and making different global markets for clean tech*.

As the European maritime technology industry will be a key enabler for achieving the EU's climate-neutral ambitions on waterborne transport and Europe's energy transition and independence, **it is crucial for the European Commission to include the European maritime technology industry in the announced Green Deal Industrial Plan**. Shipyards and maritime equipment companies produce innovative ships and technologies that are part of Europe's clean tech and industrial innovation on the road to net zero.

An effective industrial strategy for the maritime technology sector should be holistic and sectoral and be based on the following pillars:

- **PILLAR 1: CREATING A TRUE GLOBAL LEVEL PLAYING FIELD FOR THE MARITIME TECHNOLOGY INDUSTRY**

SEA Europe calls upon the European Commission to apply the Foreign Subsidy Regulation as a matter of priority as well as to take additional (sectoral) actions to enhance the industry's competitiveness, notably revise Regulation 2016/1035 on injurious pricing of vessels; apply the Carbon Border Adjustment Mechanism to shipyards soonest; enforce environmental and other EU standards upon foreign competitors in the waterborne sector; stop subsidizing Asian shipbuilding; and make European shipyards attractive again for EU shipowners.

- **PILLAR 2: REINFORCING EUROPE'S MARITIME INDUSTRIAL CAPABILITIES AND SUPPLY CHAIN**

SEA Europe calls upon, the European Commission to qualify specific markets as critical infrastructure; ease finance for sustainable and smart ship production processes; and attract new workforce whilst up/reskilling workforce through a meaningful Pact for Skills.

- **PILLAR 3 –PROMOTE EUROPE'S TECHNOLOGICAL SOVEREIGNTY AND SUPERIORITY**

SEA Europe call upon the European Commission to lead the green transition (by setting-up a fleet renewal and retrofit program at EU level and by using EU public funds and stimulating finance for innovative but risk-intensive maritime projects) and to lead the digital transition (by adopting a co-Programmed Partnership for digital maritime solutions).

An effective holistic and sectoral maritime industrial strategy will not only benefit the maritime technology industry itself but also Europe's defence, border protection, strategic autonomy (including energy independence) and the resilience of the entire maritime supply chain, including European shipowners. Hence, shipyards and maritime equipment companies need to be part of the Green Deal Industrial Plan.

1. MARITIME TECHNOLOGY INDUSTRY: A GLOBAL LEADERSHIP FOR EUROPE

Europe's maritime technology industry has some 300 shipyards and more than 22.000 maritime equipment manufacturers, which generated – before Covid-19 – an annual production value of €128.6 billion and created 1.1 million jobs[1] in maritime regions. The industry is a global leader in complex shipbuilding and the production and supply of (advanced) maritime systems, equipment, and technologies, used for commercial and naval applications. European shipyards have a market share of around 6% of the global order book in terms of compensated gross tonnage but 19% in terms of value. European maritime equipment manufacturers have a global market share of 50%[2]. This global maritime industrial leadership is the result of continuous investments in research, development, and innovation.

The innovative and technologically advanced products produced in Europe are strategic on many fronts: for Europe's defence, for achieving Europe's ambition on zero-emission and smart waterborne transport, for Europe's Blue Economy, for securing Europe's energy transition and energy independence. Hence, the maritime technology industry fits entirely with the European Commission's Green Deal Industrial Plan for clean tech and industrial innovation on the road to net zero.

2. MARITIME TECHNOLOGY: A STRATEGIC INDUSTRY FOR EUROPE

- ***Strategic for Europe's defence and border protection***

Europe's shipyards build navy ships, patrol vessels and coastguard ships, whilst Europe's equipment manufacturers produce equipment, systems, and technologies for naval applications. These assets are strategic for Europe's defence and border protection as well as for protecting Europe's trade lanes and Blue Economy activities. These military assets are essential for achieving the aims of the EU's Defence Agenda, the Strategic Compass[3] and the EU's strategic alliances. Their strategic role and importance cannot be ignored any longer in the light of increased geo-political tensions, not least the war in Ukraine.

- ***Strategic for the EU's Maritime and Blue Economy***[4]

Europe's maritime technology industry is strategic for Europe's maritime economy. As one of the EU's most RDI intensive sectors[5], the industry produces innovative and technologically advanced ships, platforms and technologies, used for commercial applications as well as for Blue Economy activities (such as fisheries, offshore aquaculture, non-living resources, marine renewable energy, coastal tourism). The maritime technology industry is important in terms of intellectual property, safety, and environment and for maritime clusters. Shipyards are often linked to port activities and contribute significantly to regional industrial infrastructure and national security interests. Finally, shipyards and maritime equipment manufacturers work alongside growing and emerging sectors (such as assistance vessels, and structures for offshore wind farms, other ocean technologies or the exploration and exploitation of the deep-sea).

- ***Strategic as key enabler for the EU's political ambitions***

Europe's maritime technology industry is a strategic key enabler for the EU's political ambitions in terms of defence, European Green Deal, EU Digital Agenda, Blue Economy and the Green Deal Industrial Plan for clean tech and industrial innovation on the road to net zero.

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[1] BALance Technology Consulting, "*European Shipbuilding Supply Chain Statistics*, June 2019.

[2] DG MARE, The EU Blue Economy Report 2022, p.86-92.

[3] The Strategic Compass is an ambitious action plan to strengthen the EU's security and defence policy by 2030.

[4] DG MARE, The EU Blue Economy Report 2022, p.86-92.

[5] 9% of annual turnover invested in RDI.

3. FAST CHANGING GEO-POLITICS NECESSITATES A NEW MARITIME INDUSTRIAL STRATEGY

- ***A sectoral maritime industrial strategy instead of unhelpful horizontal policies***

Albeit strategic, Europe's maritime technology industry still falls under *the EU's "horizontal policies".* This "one-size-fits-all" approach totally ignores the industry's specific (global) challenges and needs and has failed to respond adequately to Asia's longstanding unfair competitive and trade distortions, including injurious pricing of vessels. The EU's horizontal policies never delivered on the European Commission's promise of 1988 "*to allow this industry the trade defence weapons available to other industries*" nor did they offer "*a mechanism for a levy to offset the damage caused to European shipbuilding*"[6].

- ***An unfair competition in many ways***

The maritime technology industry does not have an own industrial ecosystem (like aviation), an own industrial alliance (like zero-emission aviation), or an own expert group (like all other transport modes), although DG GROW advocates for synergies amongst transport modes. In some cases, the maritime technology industry must compete with automotive and railways for political attention and for financing in the context of the Automotive and Mobility Industrial Ecosystem.

In contrast to EU shipowners who still benefit from favourable tax and social alleviations, including tonnage tax, under the "*Community Guidelines on State Aid to Maritime Transport*"[7], the European Commission abolished the "*Operating State Aid for EU shipbuilding*" in 2003, although no internationally agreed solution for a healthy international shipbuilding market had been reached[8].

Whilst the EU applies horizontal policies to shipyards and maritime equipment manufacturers, China and South Korea, in contrast, apply sectoral industrial strategies[9]. Such sectoral industrial strategy has had undeniable positive effects as Chinese and South Korean shipyards build most cargo ships, benefit from the current boom in orders for containerships and gas carriers, and secure orders for eco-friendly vessels, including from EU shipowners[10].

- ***Changing times require different policies: Time for a maritime industrial strategy***

The pandemic crisis and increased geo-political tensions have forced the EU to rethink some "holy" principles (e.g., open markets) in favour of new concepts (e.g., strategic autonomy). Changing the current unhelpful horizontal policies by means of an effective, holistic[11] and sectoral maritime industrial strategy would therefore be very beneficial, not only for the industry itself but also for Europe's defence, strategic autonomy, resilience, current global maritime leadership, maritime industrial capacity, maritime industrial know how, and jobs in (remote) maritime regions.

An effective, holistic, and sectoral maritime industrial strategy should be based on three pillars:

PILLAR 1: CREATE A TRUE GLOBAL LEVEL PLAYING FIELD FOR THE MARITIME TECHNOLOGY INDUSTRY

Since 1988[12], European shipyards have been waiting for international and/or EU measures against Asia's unfair competitive and trade distortions, including injurious pricing of vessels. As ships are not imported in the EU's customs territory, shipyards – contrary to other goods' manufacturers – cannot benefit from trade defence tools (e.g., anti-dumping measures) and have therefore lost many shipbuilding markets to Asia, with EU shipowners now being too dependent on Asian shipbuilding[13]. Likewise, European maritime equipment manufacturers have increasingly faced competitive and trade

[6] European Commission press release, 23 March 1988.
[7] Official Journal, C-205 – 5.7.1997, p.5-15. Introduced in 1997, these Community Guidelines were renewed in 2004 and 2011.
[8] European Commission press release, 23 March 1988.
[9] "*Made in China 2025*" targets Europe's leadership in complex shipbuilding and advanced maritime equipment production. South Korea targets a global leadership in eco-friendly vessels (75% of the market) and autonomous shipping (50% of the market) by 2030 (Lloyds' List, 9.9.2021).
[10] Maersk and CMA CGM order methanol-fuelled ships in South Korea. Grimaldi orders ammonia-fuelled ships in China.
[11] A holistic maritime industrial strategy considers all aspects from the waterborne (transport) sector and Blue Economy.
[12] European Commission press release, 23 March 1988.
[13] Source: IHS Fairplay and Clarksons Research

distortions from Asian subsidies, both in the EU (e.g., in public procurement)[14] and abroad (e.g., local content requirements, IP violations). To create a true global level playing field in the maritime technology sector, SEA Europe calls on the European Commission to:

- ***Apply the Foreign Subsidy Regulation[15] as a matter of priority***

To maintain Europe's global leadership in complex shipbuilding and advanced maritime equipment manufacturing, to enable the industry to play its key enabling role for the EU's political ambitions, and to enhance Europe's strategic autonomy and resilience, it is of utmost importance that the European Commission applies – as a matter of priority – the Foreign Subsidy Regulation to Chinese competition distortions in shipbuilding and maritime equipment manufacturing.

- ***Additional (sectoral) actions for the industry's competitiveness***

Besides applying the Foreign Subsidy Regulation, the European Commission should also:

- ***Revise Regulation 2016/1035 on injurious pricing of vessels***[16], by striking out the reference to the Shipbuilding Agreement[17], and by adapting it to modern distortive practices in global shipbuilding.
- ***Apply the Carbon Border Adjustment Mechanism to shipyards soonest*** to avoid an unwanted competitive distortion between European and Asian shipyards, with foreign steel and aluminium otherwise becoming only more expensive for European shipyards.
- ***Enforce environmental and other EU standards upon foreign competitors in the waterborne sector***, in particular the respect of competition and trade rules, labour standards, human rights, or intellectual property rights.
- ***Stop subsidizing Asian shipbuilding*** by no longer granting EU public funding (e.g., Connecting Europe Facility, European Investment Bank) to EU shipowners to build or retrofit ships in Asia, without an added value and job creation in the EU.
- ***Make European shipyards attractive again for EU shipowners***: Currently, only 1% of EU shipowners order ships in Europe, compared to 57% in South Korea and 38% in China[18], due to the huge price gap (typically 30 to 40%) between EU and Asian-built ships. The opportunities from the European Green Deal and other EU policies should therefore be used to allocate EU public funding and grant financial incentives to EU shipowners ordering eco-friendly vessels or retrofitting ships in European shipyards as they create EU-added value and jobs.

PILLAR 2: REINFORCE EUROPE'S MARITIME INDUSTRIAL CAPABILITIES AND SUPPLY CHAIN

To defend the EU's maritime borders, trade lanes and Blue Economy as well as to fully exploit the promising business potential of the European Green Deal and EU Digital Agenda, the European Commission and EU Member States should reduce the EU's dependence on Asia's shipbuilding. Therefore urgent (sectoral) actions are needed to rebuild and/or reinforce Europe's maritime industrial capabilities and supply chain. More maritime industrial capabilities in Europe will enable the maritime technology industry to fully play its role as key enabler of zero-emission and smart vessels and (offshore) structures, for commercial and naval applications. It will also make the EU more resilience and help to reducing the current dependence of EU shipowners from Asian shipyards, thereby making them less vulnerable to trade wars, retaliation or international sanctions.

Strengthening Europe's commercial shipbuilding industry is also beneficial for naval shipbuilding as well as for the development of innovative and technologically advanced dual-use technologies. The United States show that without a meaningful commercial shipbuilding sector, the country needs to rely entirely on a less efficient but very expensive naval shipbuilding industry, with prices that are at least twice the price of Europe and thus with high societal and budgetary costs as a result.

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[14] SWD (2022) 16 final, 24.1.2022 – "For a resilient, innovative, sustainable, and digital mobility ecosystem: Scenarios for a transition pathway", p.5.

[15] Regulation 2022/2560 of 14 December 2022 on foreign subsidies distorting the internal market.

[16] Regulation (EU) 2016/1035 of 8 June 2016 on protection against injurious pricing of vessels, *OJ L 176, 30.6.2016, p. 1–20.*

[17] In December 1994, the "*Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry*" was signed to establish legally binding subsidy and dumping free competitive conditions in OECD shipbuilding countries. However, this Agreement has never enter into force since the United States did not ratify it.

[18] Source: IHS Fairplay and Clarksons Research.

Whilst the EU's industrial capacity for the building of large ships has reduced, it remains nevertheless of strategic importance to maintain a critical industrial capacity in Europe for the building of large ships, not least for the EU's strategic autonomy and defence. During wars, large civilian ships are often used for military purposes and China's recent program for the building of Ro-Ro and Ro-Pax vessels clearly serves a military purpose[19].

SEA Europe therefore urges the European Commission to:

- ***Qualify specific markets as critical infrastructure***

Like the US and the UK, the EU should qualify strategic markets for Europe's strategic autonomy, trade and energy independence, and Blue Economy as "*critical infrastructure*" in the meaning of Council Directive 2008/114/EC[20]. These strategic markets include ***cabotage; shortsea shipping; passenger transport; fishing; aquaculture; offshore renewable energy; alternative fuel carriers; public procurement markets; and defence***. As strategic markets, they should be reserved to EU interests only, by imposing EU-built and EU-added value requirements (e.g., when granting a government's permit to the builder and the operators of such ships and platforms.

- ***Develop a truly naval defence industrial capability***

Due to the complexity and time constraints of the future battle space, it is anticipated that future combatant vessels will be fully digitalized, cloud connected and interconnected with the fleet, as well as automatized and operated by a reduced crew. Future combatant vessels will integrate smart stealth, will be green powered and armed by a large variety of sophisticated weapons, including e.g., electromagnetic guns, short and long-range hypersonic missiles, high-powered directed energy weapons and conventional naval guns and machine guns. Thus, the evolution of naval vessels will face a tremendous number of challenges that require to be addressed collectively in a comprehensive approach. Hence, ***the European Commission, European Defence Agenda and EU Member States should provide the necessary political and financial support to enable European shipyards and maritime equipment manufacturers to develop the navy fleets of the future, equipped with efficient, effective, innovative, and technologically advanced systems able to defend Europe, protect its maritime borders and citizens and, ultimately, safeguard Europe's strategic autonomy***.

- ***Ease finance for sustainable and smart ship production processes***

Since the 2008 financial crisis, many European shipyards have not been able to invest in much-needed modern, efficient, and advanced ship production processes as they lacked the financial means to do so following a serious decrease in orders for ships and offshore platforms. Moreover, European banks have become averse of risk-intensive projects (such as shipbuilding) and have left the market of ship financing, which is now dominated by Asia, in particular China. ***With the twin green and digital transition, the European Commission should ease access to finance as well as grant EU public funding to European shipyards and maritime equipment manufacturers to enable them to catch up in terms of the much-needed investments into more efficient, innovative, sustainable, and smart ship production processes***.

- ***Attracting new workforce whilst up/reskilling workforce through a meaningful Pact for Skills***

To cope with the twin green and digital transition, it is important for the European Commission to ***accompany the "Pact for Skills" for the European maritime technology industry with sufficient financial resources and political support*** so that the companies can turn their vision and ambition to upskill and reskill 5% of their workforce each year over the next 5 years (up to a total of 125.000 workers) and to attract a further 300.000 workers in the next 10 years, into reality.

[19] Liu Kaicai, "*Bohai Ferry builds a sample project for the industry to support the army*". China Securities Journal, 13 July 2020.
[20] Council Directive 2008/114/EC of 8 December 2008 on the identification and designation of European critical infrastructures and the assessment of the need to improve their protection, *OJ L 345, 23.12.2008, p. 75–82.*

- ***Leading the green transition: Setting-up a fleet renewal and retrofit program at EU level and using EU public funds to stimulate finance for innovative but risk-intensive maritime projects***

In line with the "*Smart and Sustainable Mobility Strategy Communication*"[21], the European Commission is called to ***set-up a fleet renewal program as well as a fleet retrofit program*** "*to preserve a thriving manufacturing ecosystem in areas where Europe has a strategic technological advantage such as … vessel manufacturing industries. This would increase the prospects of adequate production capacities and supply value chains being built up within the European manufacturing industry in line with the New Industrial Strategy for Europe, and of preserving the technological leadership of the EU's manufacturing base*" [22]. These fleet renewal and retrofit programs should ***preferably be set-up at EU level*** (instead of individual Member States) ***and target entire strategic fleets*** (instead of on a project basis) to accelerate their transition into zero-emission fleets. An individual Member States' approach has proven to be unsuccessful within Next Generation EU (only few Member States made use of the funds for the maritime sector) and involves a serious risk of competitive distortions in the Internal Market.

In addition, both ***the European Commission and EU Financing Institutes (e.g., European Investment Bank) should promote investments in zero-emission and smart maritime projects fostering EU added value (in terms of economic growth, jobs, and regional industrial growth) and positive spill-over effects throughout the entire maritime value chain***. Furthermore, the European Commission should facilitate a closer cooperation between policymakers, financing institutes and maritime stakeholders, not least in discussions on the *taxonomy* criteria, to boost green and smart maritime investments (instead of hampering them). These discussions should be based on facts and science instead of emotions or ideology, to avoid unhelpful proposals.

- ***Leading the digital transition: Adopt a co-Programmed Partnership for digital maritime solutions***

Like for zero-emission waterborne transport, the European Commission is called to adopt a *co-Programmed Partnership for digital shipping and ship production* to allow the maritime technology industry to accelerate investments in research and development of innovative digital solutions for waterborne transport and ship production processes.

4. NO TIME TO WASTE

Recent developments have shown that neither the European Commission nor EU Member States can remain complacent for the European maritime technology industry and need to act now. Therefore, **SEA Europe calls the European Commission to include this industry in the Green Deal Industrial Plan for clean tech and industrial innovation on the road to net zero and to adopt a sectoral maritime industrial strategy.** Such strategy should not only support the industry's global competitiveness and strategic role as key enabler for the EU's political ambitions (including European Green Deal and Defence) but also enhance Europe's maritime resilience and strategic maritime autonomy. Without it, the sector will not be able to take the full benefit from promising business opportunities arising from the EU's political ambitions, with the danger that the remainder of Europe's maritime industrial capabilities gets lost to Asia, with negative repercussions for Europe, including for EU shipowners.

SEA Europe's proposed actions should all be addressed together as they form an integral strategy. There should thus not be any pick and choose of quick wins only. But first and foremost, prompt action is urgently necessary to support the global competitiveness of the maritime technology industry. Since 1988, the sector has been waiting for international and/or EU actions and despite European Commission promises, no action has been taken so far, with dramatic statistics as a result. Still, Europe remains a global leader in certain markets, but this global leadership is also targeted by Asian competitors, who always use the same toolbox of unfair competitive and trade distortions. What is the EU still waiting for?

[21] COM (2020) 789 final, 9.12.2020.

[22] COM (2020) 102 final, "A New Industrial Strategy for Europe".