

Specialist. solution

The dominating shipbuilding power of Asia has caused European shipyards to adapt their strategies to remain competitive. John Beresford meets **Corrado Antonini** of Fincantieri, STX Europe's **Torbjrn Andersen**, and Fearnley Fonds analyst **Rikard Vabo** to discuss how Europe is calling on its specialist skills to succeed.



Shipbuilding used to be the heartbeat of Belfast. The Northern Irish city was home to the Harland & Wolff shipyard, which famously produced the *Titanic*, and at its peak during the Second World War employed 35,000 people. The last ship to be built in the city, however, left in 2003 and now the famous old yard lies empty. Belfast shipbuilding is history.

Other European yards have suffered a similar fate to Belfast thanks to intense competition from Asia, where labour and raw materials are cheaper. This process began in the 1960s and accelerated continuously until the 1990s, and now few merchant ships, tankers or cargo ships are built in Europe.

European shipbuilding has nonetheless survived into the 21st century. Corrado Antonini, chairman of Italian shipbuilder Fincantieri, explains that Asian competition offered European shipbuilding a stark decision. 'When Korea and then China became dominant in the area of mass production, European shipbuilding was forced into making a choice: either to disappear in the face of this competition or to specialise in technologically advanced products,' he says.

'This option [producing technologically advanced products] was the only possible choice for Europe, but it came at the cost of a substantial reduction in production capacity because the volumes guaranteed by high-tech specialised vessels are not comparable with those that can be reached by producing high numbers of bulk, such as tankers.

'This meant that European shipbuilding lost a great number of its workforce and the remaining plants were able to specialise in highly sophisticated products, such as cruise ships, the construction of which is practically dominated by Europe.'

This process of specialisation has accelerated over recent years, creating a situation whereby European shipbuilding functions primarily on a project management basis. Tørbjrn Andersen, senior vice-president of corporate communications at the South Korean-owned STX Europe, formerly Aker Yards, says that European shipbuilders have focused increasingly on the parts of the industry at which they excel. 'We have seen more and more specialisation,' he says.

'We are focusing on doing the work that European shipbuilders are very competitive



European shipyards are world leaders for cruise ship construction.

'Our yards have become so efficient over the last ten years that we now deliver one ship approximately every second week.'

Tørbjrn Andersen

at and leaving other parts of the project to suppliers or to yards, for example, outside of Europe.

A good example is offshore vessels. Norwegian yards produce a large portion of the world's offshore support vessels, anchor handling vessels.

'Typically, no yard in Norway fabricates hulls any longer. Hulls are being made in countries where the steel job part of the project can be done on a competitive basis, with the outfitting completed at European yards, often in Norway. We will continue to see a split between different parts of the

process, where each unit in the value chain focuses on what it is good at.'

Antonini believes competition from Asia has moulded European shipbuilding. 'It all started in the mid-1980s when Korea became the world's top producer, which it still is,' he says. 'China emerged in the early 21st century. During this period European shipbuilders developed a big network of sub-contractors.

'To produce specialised vessels, the contribution of sub-contractors is substantial, producing over 80% of the value of a ship. Enlarging and strengthening the network

of sub-contractors by slimming the production process and increasing the money spent on innovation is a key factor in staying competitive.'

This specialisation means that Europe is the world leader in producing cruise ships. According to Rikard Vabo, an analyst with Norwegian independent securities firm Fearnley Fonds, Asian shipyards have failed to match Europe in this respect.

'When it comes to the cruise business, we have seen some major changes in ownership; STX taking over Aker Yards, for example,' he says.

'You can't just set up a yard in Asia and start building a cruise ship. The Japanese have tried that, and they failed. It's not the work at the yard, it's the project management. You are dependent on a complex and diverse supply chain which is available in Europe at the moment and you can't conjure that up. It will take five, maybe ten years before you see a strong competitor from Asia.'

The flipside, of course, is that the building of merchant vessels in Europe appears to be on its last legs.

As Antonini explains, ships that are produced according to a standard design and in great numbers are more financially viable in Asia. 'There is an advantage by producing the same ships over and over again,' he says.

'This trend started because there is a clear advantage in Asia as far as the cost of manpower and raw materials are concerned. In Europe, the price of steel is some 30% higher than Asia.'

Vabo believes that those shipyards remaining in Europe that still produce merchant vessels are finished. 'Merchant vessels [in Europe] are doomed,' he says. 'The competition from China, Korea and Japan – especially China with its new expansions – will be intense.'

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Hard times

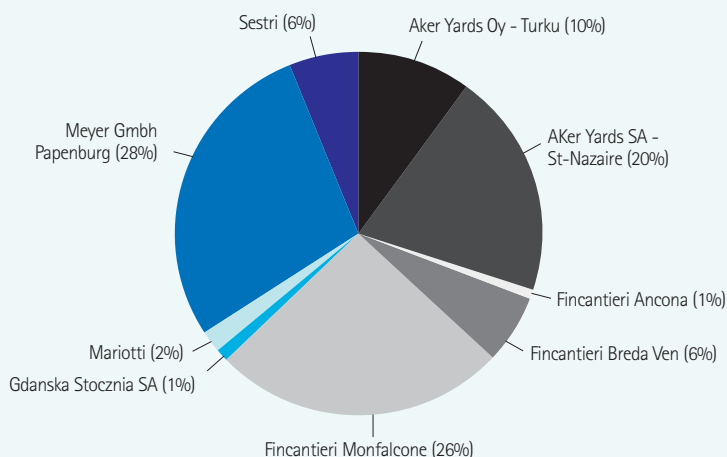
The current global financial crisis means that all parts of the European shipbuilding sector are suffering. 'Over the last year, European shipbuilders have been hit by increased costs,' Vabo says.

'As much as 80% of the total contract area is outsourced and pressure on the supply chain has caused costs to inflate.'

'Naturally, delays cost a lot of money when you have these building principles. When you have delays in one chain it will affect the whole project and that is what you have been seeing for most of the European yards. They have had a tough period over the last year.'

The uncertainty engendered by the economic situation means that yards have

Current shipbuilder cruiseship orderbook market share by GRT



Source: Lloyd's Register

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to work harder to stay competitive. Andersen says that STX Europe is relying on design sophistication to maintain its market position. 'Our yards have become so efficient over the last ten years that we now deliver one ship approximately every second week,' he explains.

'That means we cannot rest and must compete for new orders. We have started to use design to an even larger degree. We include features that make the ships more effective, which add value. These features include reduced energy consumption, lower operational costs in general, features and designs that allow the ship to perform advanced operations typical of offshore vessels, or the ability to operate in various geographical areas and environments, such as the Arctic.'

Antonini is optimistic that Europe can survive its current problems. 'We have to look at the fundamentals of our business,' he says. 'Our fundamentals say there is a world which has changed in terms of development, involving an increasing number of people. In the past, when the industry faced a crisis, it was basically confined to industrialised countries. Nowadays, thanks to the process of development, the economies of China, India, and others are not suffering stagnation as we are; they are reducing the rate of development. But they are still developing. I hope this will create some kind of locomotive effect on the worldwide economy because these countries will not accept any kind of return to their pre-development position.'

Antonini also believes that the potential of the development of cruising is substantial, not only in the US but in Europe, which he says is still lagging behind. He also highlights the importance of ferry services.

'With regard to ferries, I think the development of the so-called highways of the sea – the short sea shipping within Europe – will continue, which in the medium term should represent a good market opportunity for shipyards and owners,' he says

'Finally, there are supply vessels which are connected with oil exploitation and other specialised vessels such as seismic vessels, research vessels and so on. I think they will continue having a good prospect in the longer term. Beyond this crisis, there are factors which let us think that the outlook will get back to being positive.' [wc](#)

Euro files: The role of European shipyards

- The European shipbuilding industry holds approx 20% of the world's capacity.
- Member shipyards provide more than 100,000 high-qualification jobs through direct employment and generate at least three times as many in the marine equipment and service industries in Europe.
- The annual turnover of shipyards represented by CESA in 2003 was €14.4 billion in merchant shipbuilding and €2.1 billion in ship repairing. Exports accounts for roughly 70% of the total turnover.
- As key drivers of maritime excellence, European yards invest on average 10% of their turnover on research, development and innovation.

Source: Community of European Shipyards