EXECUTIVE SUMMARY
Developments and Prospects of the Shipbuilding Industry in Greece

Shipbuilding is an industry in which Greece has recorded a notable performance in the past, while also possessing crucial conditions for substantial and sustainable growth in the future. However, in recent years, shipbuilding activity in Greece has declined dramatically in terms of both volume and range of shipbuilding projects, while the large shipyards of Skaramagas, Elefsis and Syros have been facing serious problems with a significant impact on the country's entire shipbuilding industry. This situation raises many important questions concerning, among other things, the domestic and international factors that led Greece's shipbuilding industry to this point and the prospects and conditions for the revival of the country's large shipyards.

The above issues are investigated systematically for the first time in the present report, which aims at a multifaceted assessment of the course and prospects of the domestic shipbuilding industry. The approach adopted in the report includes the analysis of the international and European framework of the relevant market, the investigation of the main developments and characteristics of the domestic shipbuilding and repair industry and the identification of its particular advantages and problems, with an emphasis on the large shipyards of Skaramagas, Elefsina and Syros.

International environment

Shipbuilding represents a complex and high value-added productive activity, with particularly high demands in terms of infrastructure, facilities, capital equipment, skilled labour and technology. In addition, depending on their size and range of activities, shipbuilding firms do not participate in one but in three different and interconnected markets, namely the maintenance and repair market, the conversion market and the newly built vessels market. With few exceptions, these three markets are dominated by the features of globalization and intense competition.

The shipbuilding markets, and especially the newly built vessels market, are characterized by a high degree of cyclicality, as demand is directly linked to a variety of determinants, such as the corresponding shipping market cycles and, more generally, developments in international trade. Overall, periods of normality in shipbuilding are the exception to the rule, and demand trends are difficult to forecast even for most specialized analysts.

With regard to supply, in terms of gross tonnage, over 90% of newly built ships worldwide come from the shipyards of Japan, South Korea and China. Europe's participation in the global supply of new vessels is limited to around 5%, but European shipyards (with German shipyards being the pioneers) have gained expertise in the construction of high value-added, state-of-the-art vessels.

The uneven geographical distribution of world shipbuilding activity is partly related to the transnational nature of the shipping economy and to the great differences between Europe and Asia in terms of production costs. However this distribution is also a result of policy intervention in South Korea, China and Japan, where shipbuilding industries have been generously subsidized and continue to be supported by the state, and banking systems provide loans to foreign ship-owners on attractive terms to finance orders in their shipyards. In contrast, EU policy with respect to shipbuilding activities is governed by the *laissez faire* rationale, and any aid to shipbuilding in EU countries is limited to grants for innovative activities and to the provision of export credits.

In the current conjuncture, the world shipbuilding industry is in a state of recession, and based on the past record of economic cycles, any projections about future developments are risky. Nevertheless, favourable effects on international shipbuilding activity are expected to emerge from the gradual acceleration of the growth rate of international trade, the rise of private consumption in China, the more intensive use of international production chains in manufacturing, the tightening of environmental regulations and the pressures for more efficient fuel use in maritime transport, and the changes and shifts in global shipping towards the reduction in the average cost of shipping services. In addition, an important international development with potential positive effects on the shipyards of the Mediterranean, and therefore also of Greece, is the expansion of the Suez Canal.

The shipbuilding and repair industry in Greece

The shipbuilding and repair industry in Greece consists of the large shipyards of Skaramagas, Elefsis, Neorion Syros, and Chalkis, and the numerous small and medium-sized shipbuilding and repair units located mainly in the Piraeus, Perama, and Salamis area, and especially at the Perama dry docks. The activities of small and medium-sized units depend to a significant degree upon their ability to use the facilities of the Skaramagas and Elefsis shipyards, as well as upon the volume of projects undertaken by the large shipyards. Also, the facilities of the Piraeus Port Authority are important for small and medium-sized units.

In recent years, Greece's shipbuilding and repair industry has suffered a deep crisis, as clearly reflected in the economic figures of the sectors of *Building of Ships and Boats* and *Repair and Maintenance of Ships and Boats*. The causes of this crisis, which was more pronounced in the case of the *Building of Ships and Boats sector*, appear to have been related to the adverse developments in the international shipping market, to the overall deep crisis in the Greek economy, as well as to the particular weaknesses of the country's shipbuilding industry, most notably the problems burdening the large shipyards of Skaramagas, Elefsis and Neorion Syros.

Despite its severe decline, the shipbuilding and repair industry continues to play an important and multidimensional role for the Greek economy in terms of production and employment shares, linkages to the activities of other sectors, importance for the country's external balance, growth and diffusion of technology, local community effects, maritime transport safety and national defence.

Skaramagas, Elefsis and Syros Shipyards

The Skaramagas, Elefsis and Syros shipyards form the core of Greece's shipbuilding industry and possess certain important advantages with respect to their geographical position, their basic infrastructure and the extensive experience and know-how of their personnel. Nevertheless, the three shipyards face serious, multiple and interrelated problems, which must be urgently addressed in order to secure their future. The most serious of these problems include their severe financial condition, the pending recovery of unlawful state aid, the operational problems and the lawsuits between the ownership and the Hellenic State concerning the Skaramagas shipyard, the pending payment of a large part of the price for the acquisition of the Elefsis shipyard, the deterioration of infrastructure and the deficiencies in modern equipment, the high production costs compared to competing countries, the financing difficulties due to the crisis and the financial situation of shipyards, the lack of availability of financial support instruments compatible with Community law, the problems in meeting delivery times, the decline in productive activity and the dependence of Skaramagas and Elefsis shipyards from Navy orders, the gradual deterioration of human resources and the intensity of international competition.

The advantages and main problems identified in the cases of the Skaramagas, Elefsis and Syros shipyards broadly match the strengths and weaknesses of Greece's entire shipbuilding industry.

Opportunities and prospects of the shipbuilding and repair industry in Greece

Opportunities for growth of the shipbuilding and repair industry in the future are particularly substantial for Greece, and arise both from the favourable international trends, and from the particular advantages and prospects related directly to domestic shipbuilding and repair activity, such as the expected increase in the traffic of container and cruise ships in the Port of Piraeus, the possible future increase of Suez Canal traffic, the opportunities stemming from the special ties to the Greek-owned merchant fleet, and the potential formation of a shipping-shipbuilding and repair cluster in the wider Piraeus area.

A key requirement for making use of the advantages and opportunities available to Greece's shipbuilding industry is the identification of a comprehensive solution to the problems of the large shipyards. Such a solution should incorporate the resolution of the financial deadlock faced by the shipyards, the implementation of major new investments for the maintenance and upgrade of their installations, and the overall enhancement of their operation and competitiveness in line with the standards employed by shipyards in other advanced countries. It is clear that the major funds and extensive know-how required to proceed in this direction point to the need for encouraging a process of identification of a strategic investor. With respect to the potential results from the lifting of the deadlock in the large shipyards and their revival and growth by use of new capital and know-how, significant benefits are expected to arise in terms of employment, exports, economic activity in the shipbuilding and repair sector as a whole, technology diffusion, and preservation of the country's ability to cover its needs with respect to the building and repair of Navy vessels.