



Germany: Shipbuilding Industry

Claus Faltin
Date (09/2008)

Summary

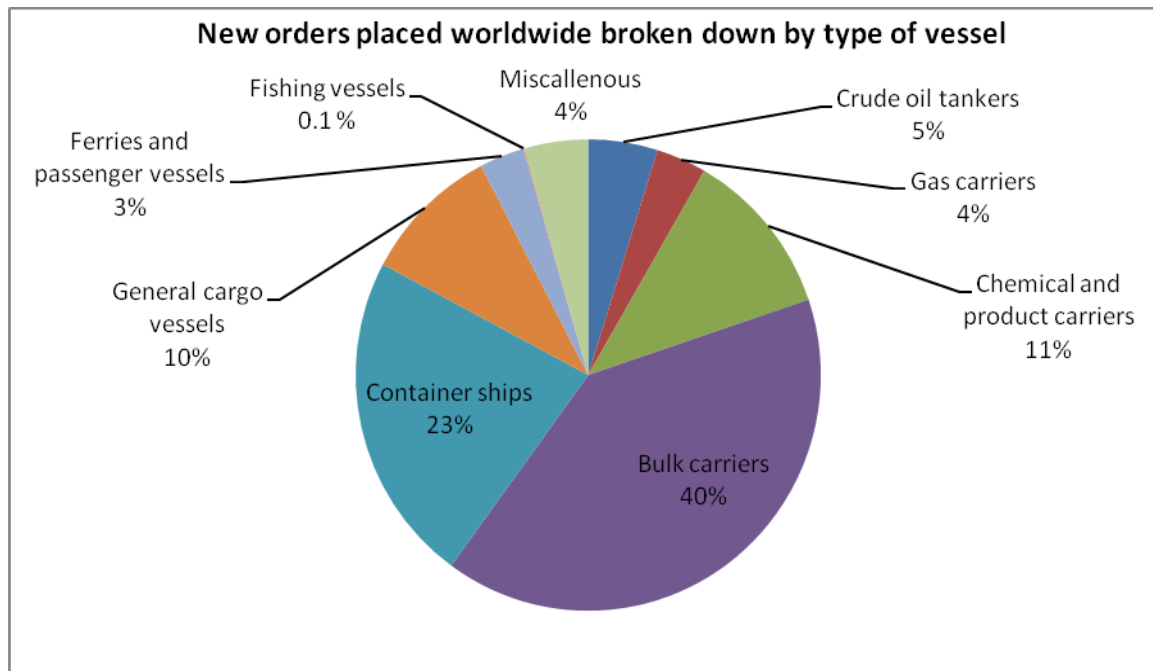
In 2007, the world economy and the world trade grew with steady growth rates of 5 % respectively 7 %. As the shipping industry does not only profit from this development, but is an essential part of the globalization process it realized steady growth rates in 2007. Particularly the expansion of developing countries such as China, India and Russia and the transfer of production sites to low wage countries resulted in increased demand for freight tonnage.

The worldwide demand for new vessels reached record levels in 2007, exceeding the production by 150 %. This influenced the German market strongly, resulting in 5.1 billion Euros in sales for the ship building industry. Unfortunately, the employment situation is not accompanied by improved revenues. The cost of materials, wages, salaries and energy rose faster than the prices of new vessel. In particular, the sharp rise in steel prices that were charged to shipyards and suppliers drastically affected prices.

In the Asian dominated market Germany defends its fourth place in the worldwide ship market with innovative and knowledge based technology, the production of ships for niche markets and environmentally friendly technology.

Market Demand

Order situation worldwide in 2007



Source: Lloyd's Register-Fairplay (compared by compensated gross tons)

As mentioned in the introduction, the development of the market demand is positive. Demand exceeds production, and some German shipyards have full order books until 2011 or 2012. This proves that German shipyards are successful in the competition with Asia. As visible in the chart above, the mass market consists of bulk carriers and container ships – standardized products which do not require a high level of expertise or new technology. Therefore, the Asian shipyards with their lower labor costs have a clear competitive advantage in this sector. Consequently, the German shipbuilders had to specialize and innovate to stay competitive. They diversified into specialized ships, such as high-quality passenger ships, ferries, and special-purpose units. Demand for these types of ships is increasing due to modernization and increased ship safety requirements as well as increased passenger and freight transport services throughout Europe. As German shipyards pride themselves to own the leading technology in this sector, they are continuously on the lookout for new know-how, a good chance for US suppliers.

The military sector contributes roughly 25 % to the shipbuilding market. In marked contrast to other countries, the German marine market is wholly private and market based organized and does not receive any subsidies. Through the technology leadership in the non-nuclear submarine sector there is a strong international demand for German marine products, leading to an export quota of 75 %. Competition for US companies is tough, as the German defense ministry has a very tight budget, and is reluctant to order from non-German, non-European companies.

The demand for products of German suppliers is extremely high. They do not only benefit from the increased order volume in Germany but have an export quota of 75 %, supplying shipyards worldwide. First of all they profit from the good reputation of German products, but also of the high order volume German ship owners place in Asia. They frequently request the use of German parts to secure the quality. Therefore, to succeed in the German supplier market, it is important to be reliable, punctual and deliver high quality and progressive products.

Best Prospects

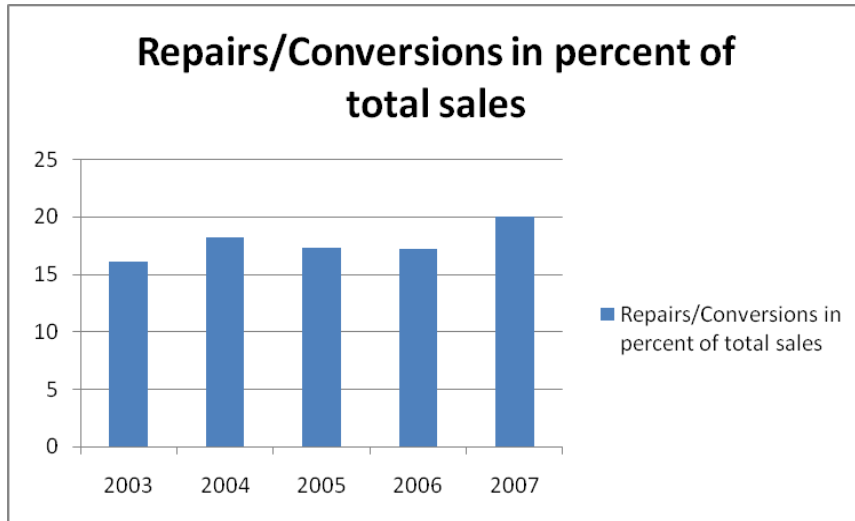
In general, American companies profit in all sectors of the shipbuilding industry from the weak Dollar, reducing the prices of their products for the German companies. Additionally there is further growth potential in the following sectors:

One of the rising markets in Germany is the reconstruction and repair market. As visible in the chart, the repair and conversion market, is on the rise, generating in 2007 already 20 % of the sales in the shipbuilding market. A growing world fleet of ships and tightening security and environment regulations lead to an increasing need for building alterations. The German shipbuilders report sales of 955 million Euros in this segment for 2007 and expect further successes for the next year. The German reputation for reliability and punctuality, resulting in shorter dock periods is one reason for this achievement. Furthermore, it is expected, that the success of the cheap Asian shipyards will result in a lot of repair orders soon. For these ships were frequently build with less expertise and inferior material resulting in a faster deterioration.

Other factors for the success are the convenient location of German shipyards, close to important sea routes, and the knowhow in environment related rebuilding. Additionally, a lot of ship owners hesitate to commission new ships, as the waiting lists are long, and prefer to modernize their existing vessels.

As the average age of the world ship fleet stagnates at 22 years, and more regulations are on the way, future growth in this sector can be expected.

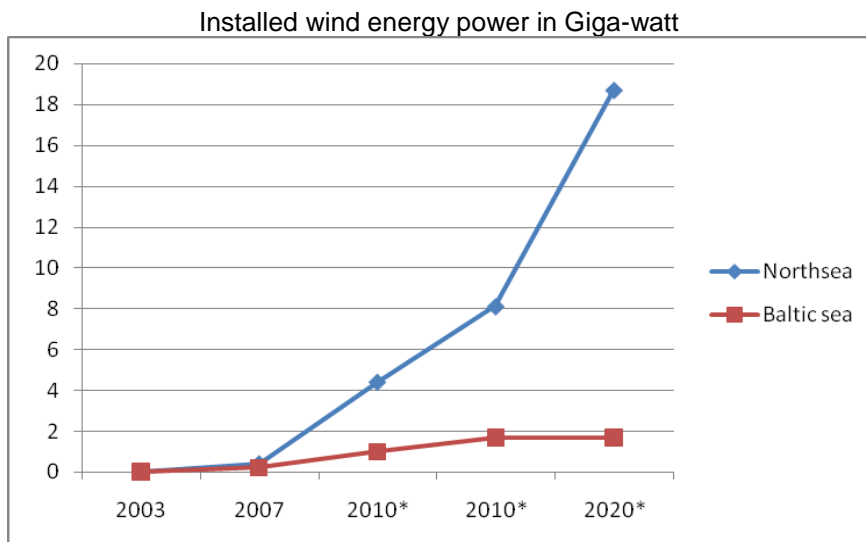
Percentage of the sales in the shipbuilding industry produced in the repair/conversions market



Source: VSM annual report 2007

Another branch of the shipbuilding industry which is currently in a growth phase is the offshore sector. With rising energy prices, the offshore pumping of oil and the power generation by wind power becomes more and more important. As oil and gas companies drill for resources in deeper parts of the sea, the technology needs to advance, leaving a big market for companies with cutting-edge technology. This is for sure an interesting opportunity for US companies with their yearlong expertise in offshore drilling and their high standards for security and environmental restrictions.

As the German government is pursuing the goal of 20 % renewable energy until 2020 the wind energy sector is on the rise. 20 Projects in Germany are already approved and 47 more are in the pipeline. The importance of the wind energy sector is underlined by the fact, that even a new type of ship, based on the SWATH technology was developed to secure the maintenance of these platforms. The Swath (Small Waterplane Area Twin Hull) boats have a resemblance with catamarans and achieve significant reduction of the rolling of a ship.



Source: Dena-Netzstudie

Key Suppliers

[Insert text here.]

The Thyssen-Krupp Marine system group combines HDW Kiel, Blohm & Voss, the Nordseewerke and other shipyards and is leading in the German market. Other big shipyards are the Aker MTW and the Meyer shipyard, all of them employing more than a 1000 employees and situated in one of the five coastal states of Germany. In marked contrast to this, the supplying industry is coined by the presence of small and medium sized companies, spread out all over Germany.

Prospective Buyers

German ship owners are amongst the ship owners with the most vessels and ordered 643 new ships in 2007. The German defense ministry is on a very tight budget and unlikely to give contracts to non- German companies except for technologies where American companies have the cutting-edge knowledge needed.

Market Entry

National and European companies dominate the German market. A significant market feature is the high level of networking between shipyards and suppliers. Suppliers account for 70% of value added during the shipbuilding process. Therefore, the connection between suppliers, shipyards and ship owners is very close, making it difficult for foreign companies to enter the market. The best chances for a market entry lie in sophisticated technology such as high class equipment for ferries, passenger vessels and yachts, or as mentioned above extremely new defense technology.

Market Issues & Obstacles

The biggest obstacle for the shipbuilding and the supplier industry are the rising costs of raw materials. Particularly the steel prices rose dramatically, leaving the industry with a competitive disadvantage compared to Asia where steel prices are up to 30 % lower. Another problem of western companies in the international market is the insufficient protection of intellectual rights. Frequently, to obtain contracts in the foreign markets, it is obligatory to team up with a local company, resulting in a knowledge transfer. This is not only a disadvantage for the innovation intensive German industry, but also puts the ship security in danger, as plagiarisms often do not satisfy the security regulations.

Finally, the overall German problem, the lack of engineers also hinders the development of the shipbuilding market. Studies project, that the number of engineer graduates will only satisfy one third of the demand of the maritime market.

Trade Events

SMM (Shipbuilding, Machinery and Marine technology) 07-10 September 2010

Hamburg Messe und Congress GmbH
Messeplatz 1
20357 Hamburg
Tel:+49 40 3569 – 0
Fax: +49 40 3569 - 2203

www.hamburg-messe/smm

Resources & Contacts

www.vdr-online.de/
www.vsm.de
www.offshore-wind.de
www.hamburg-messe.de/smm

For More Information

The U.S. Commercial Service in Berlin, Germany can be contacted via e-mail at: Claus.Faltin@mail.doc.gov;
Phone: +49(0)30 / 8305 1920; Fax:+ 49 30 8305 1949 ; or visit our website: www.buyusa.gov

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide. Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by visiting <http://www.export.gov/>.

Disclaimer: The information provided in this report is intended to be of assistance to U.S. exporters. While we make every effort to ensure its accuracy, neither the United States government nor any of its employees make any representation as to the accuracy or completeness of information in this or any other United States government document. Readers are advised to independently verify any information prior to reliance thereon. The information provided in this report does not constitute legal advice.

International copyright, U.S. Department of Commerce, 2007. All rights reserved outside of the United States.