



EuDA Annual General Meeting

17 November 2015, Brussels



“STATE AID AND TIED AID”

Different Approaches to Global Competition

**Examples of threats around the world
What's next for European Dredgers?**

Paris SAN SOGLOU

Secretary General

European Dredging Association

European Dredging Association 2015



Agenda

- EuDA and Dredging
- Global Competition
- Tied Aid
- Way forward



What is EuDA about ?



EUROPEAN DREDGING ASSOCIATION



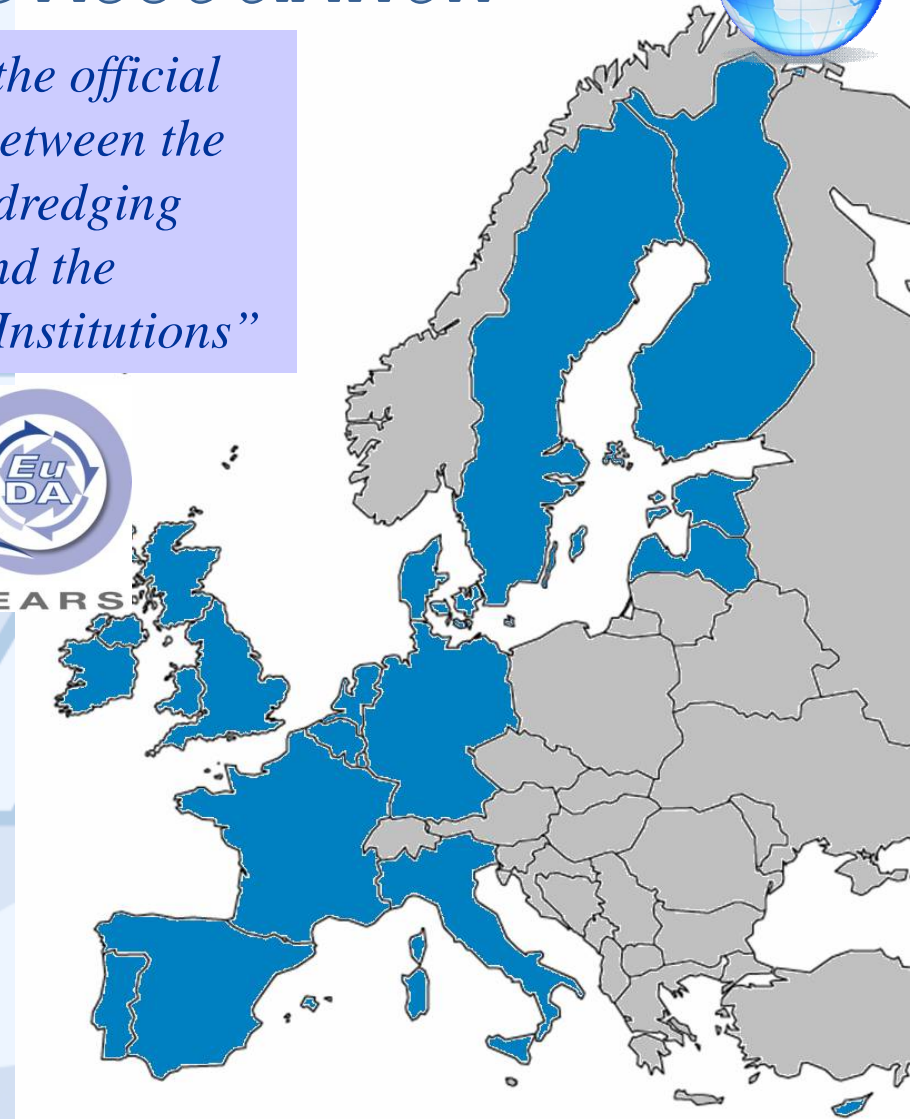


EUROPEAN DREDGING ASSOCIATION



“EuDA is the official interface between the European dredging industry and the European Institutions”

- founded in 1993
- represents the European Dredging Companies
- from 16 EU Members States
- world leaders (top 4)
- with a turnover (2014): €9.2 bn
- +/- 25,000 European direct employment
- >50,000 indirect employment (supply and service companies)





Dredging is part of the Solution

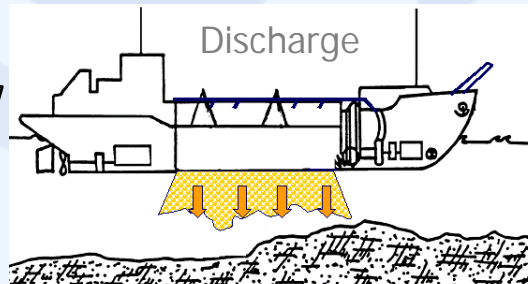
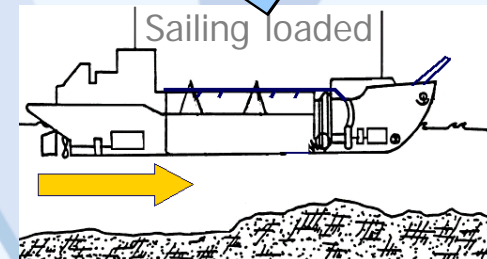
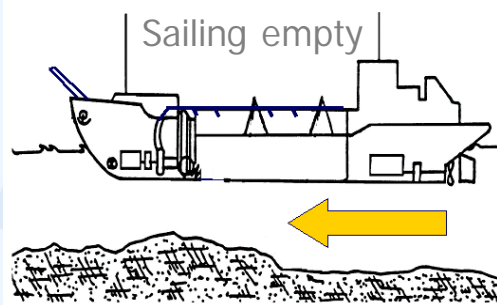
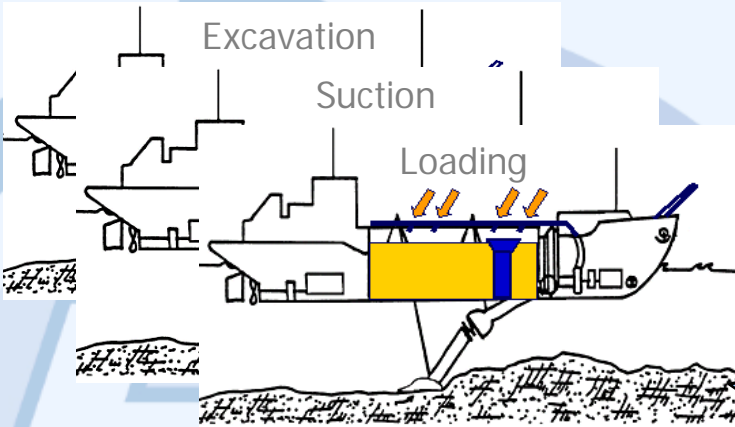
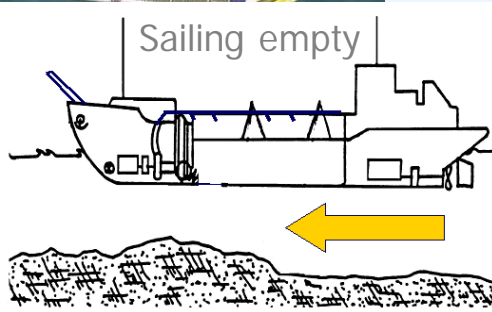
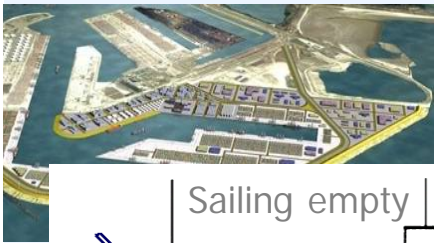


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Dredging means transporting



- Sand
- Rock
- Gravel
- Silt



ation 2015



Dredging is not a problem ... it is part of the solution !



Dredging is essential to support waterborne Transport Infrastructures

*“Around 80% of
the largest
population
centres in the
world are found
in coastal areas”
R. Waterman*

👉 Port expansion in densely populated and urbanised areas

👉 *“Reclaim land from the sea”*



👉 Ports' access for bigger ships:

👉 *“Access channel deepening”*



👉 Guaranteed navigational depth:

👉 *“Maintenance dredging”*

👉 Contaminated sediments on seabed or riverbeds:

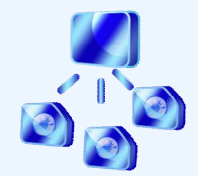
👉 *“Environmental dredging”*



European



Dredging is not a problem ... it is part of the solution !



Dredging also facilitates and protects other coastal activities worldwide

(Coastal) Cities need

👉 Energy and resources:

👉 *“Offshore Oil & Gas installations”*

👉 *“Offshore Wind Farms”*

👉 *“Aggregate Mining”*

👉 Protection from water

👉 *“Coastal and flood protection”*

👉 Recreation

👉 *“Leisure infrastructures”*





20th Anniversary Conference

Key Messages



In 20 years European dredging companies have evolved

☞ from “*mud pushers*” to **World Leaders**;

☞ from *specialised sub-contractors* to **main contractors**;

European dredgers continue to provide **indispensable services** to the waterborne transport logistic chain.

In 20 years, European dredging companies have continuously innovated, together with their clients, and

☞ increased their performance and efficiency;

☞ increased their added value for their clients;

☞ broaden their portfolio of more diversified services worldwide.



20th Anniversary Conference

Key Messages



In 20 years, European dredging companies have become **stronger**, more **resilient** and more **profitable**.

However, they need **unhindered access** to markets worldwide.

European dredgers build more and more knowledge from a broader and broader range of disciplines and have become experts in the **management of complexity** which implies:

- ✓ solving complex engineering problems but also
- ✓ the management of multidisciplinarity;
- ✓ the management of multiculturality;
- ✓ the building of mutual trust with clients and stakeholders.



European Dredgers' Business Model



European Dredging Association 2015



European Dredgers' Business Model

From National Dredgers to International Maritime Builders



👍 **DREDGING PLUS:**

focus on dredgers' technology + focus on other sciences!

Paradox: Focus + No Focus ??



Results:

- 👉 high added value
- 👉 acyclical industry through diversification in geography and in activities
- 👉 creation of new opportunities

European Dredging Association 2015

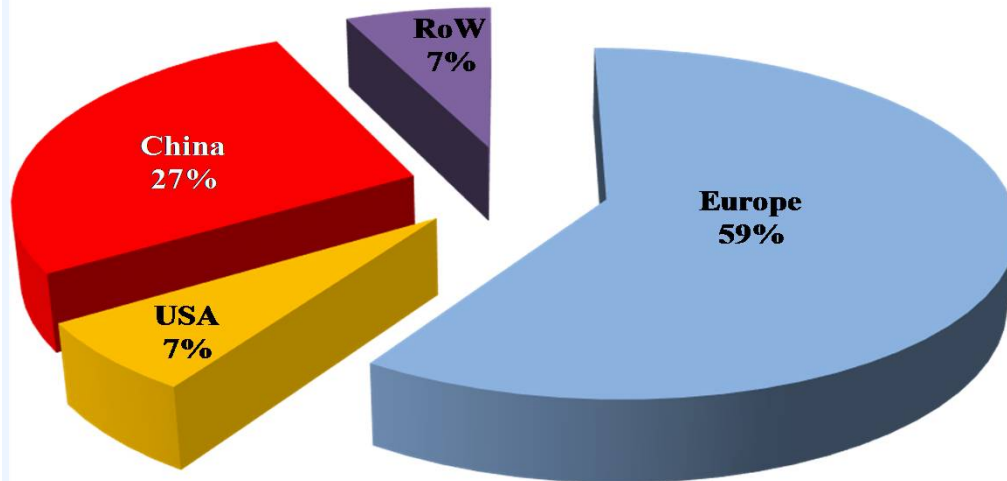


European Dredgers' Business Model

High added value



World Dredging Market shares for selected Areas



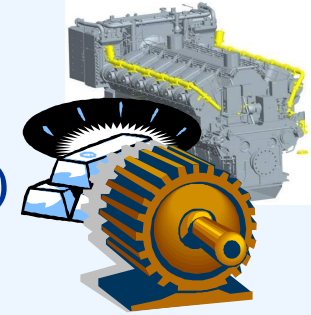
high-tech, high added value, high-wage





European Dredgers' Business Model

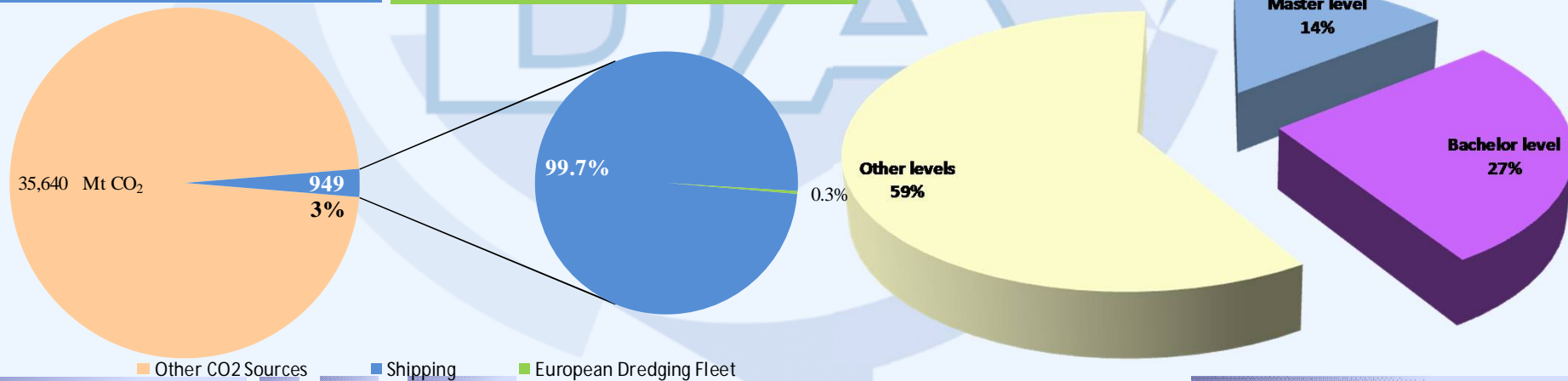
High added value (capital intensive & innovative)



- 2/3 of world's dredging projects (70% outside EU) bringing however 90% return back to Europe
- 7 billion € investments from 2008 to 2012
- 2.5% of total turnover invested in R&D
- largest, most powerful & most technologically advanced Fleet

Maritime Sector (2012):
3% of global CO₂ emissions

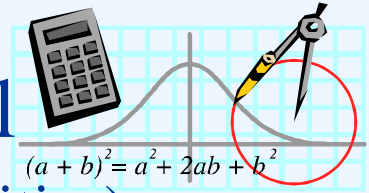
European Dredging Fleet:
0.3% of Maritime CO₂ emissions



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European Dredgers' Business Model

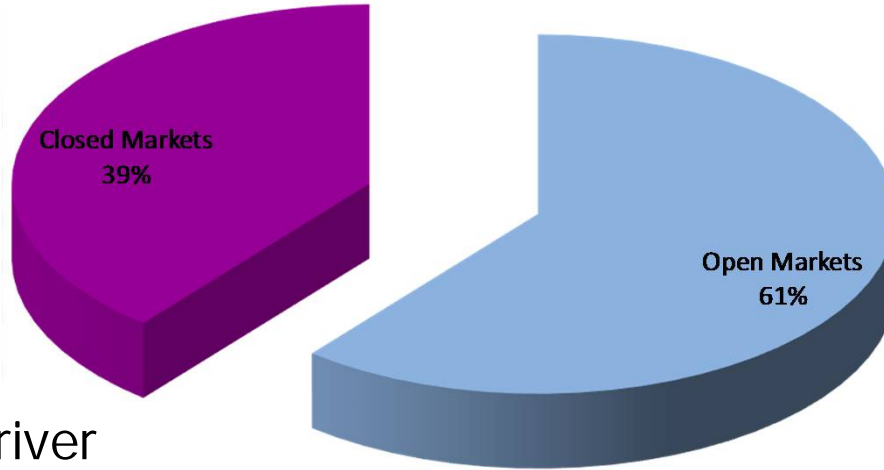


Acyclical industry (diversified international activities)

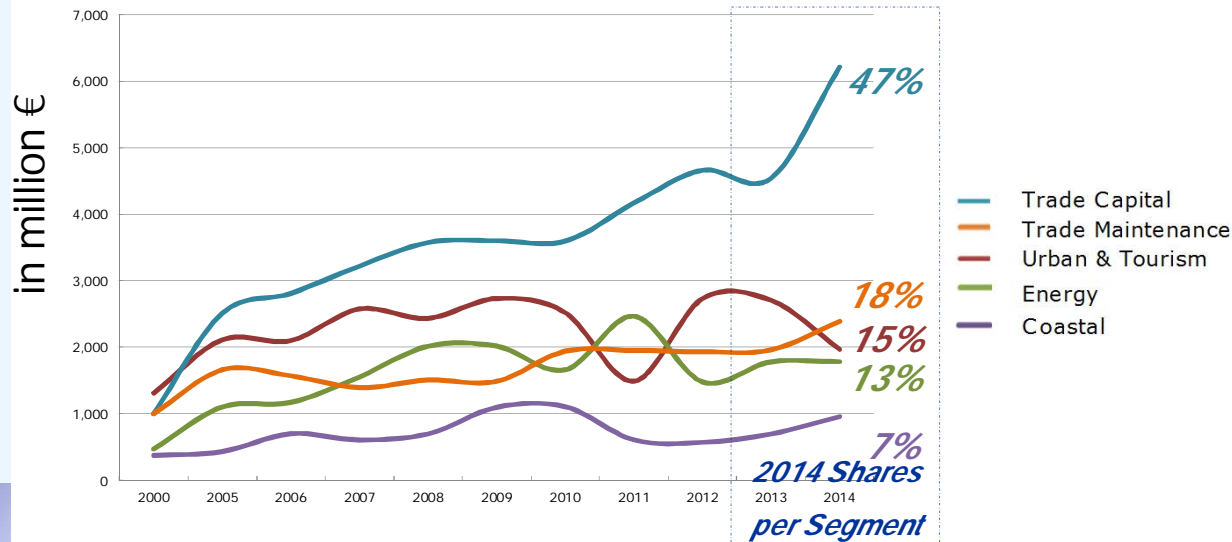
Annual turn-over dredging industry compared with other industries
(in billion €, 2014)

Royal Dutch Shell	342
Toyota Motor	209
ArcelorMittal	64
A.P. Møller-Mærsk Group	39
World Dredging Industry	16

Turnover (2014) € 15.9 bn



Turnover evolution per driver



2015



European Dredgers' Business Model

Creation of new opportunities

Coastal protection
Safe Place of Refuge
Nature development



"Multipurpose Island"





Global Competition

Government interventions



“Competition is a process of rivalry (*on price, quality, skills, ...*) between suppliers seeking to win business.” *UK Office of Fair Trading*

Properly regulated markets can foster effective competition, which in turn can:

- ✓ be free of unfair trading practices;
- ✓ stimulate lower prices, better quality goods and services, greater choice for consumers;
- ✓ create strong incentives for firms to be more efficient and to invest in innovation, thereby helping raise productivity growth.

Governments’ interventions include market makers, buyers and suppliers, but they also regulate, tax, subsidise or influence markets.



Global Competition Government subsidies



“(Taxes and) subsidies change the costs of some businesses, influence production decisions and affect competition.”

UK Office of Fair Trading

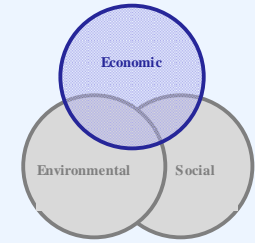
They can be used to address:

- ✓ market failures (e.g. Maritime Guidelines);
- ✓ cyclical difficulties (e.g. banks in 2008);
- ✓ achieve wider social objectives (e.g. regional development).

Subsidies generally cause less distortion in strongly competitive markets.



Global Competition Overview



The dredgers' view

⇒ Competitiveness

- ✓ European Dredgers are world leaders (Top 4)
- ✓ Innovation: High Tech Industry

“To be world leaders is a moving target, not a destination”

⇒ Global Competition

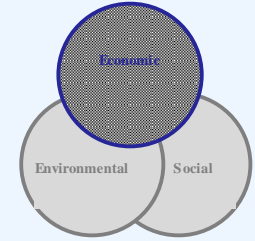
- ✓ Global Legislation
- ✓ Level Playing Field
- ✓ Market Access
- ✓ State aid to maritime transport

“The only way to maintain global leadership and keep growing is to innovate”

“Competition can only be fair when all play by the same rules and have the same access to markets”



Global Competition Threats



The dredgers' view

⇒ Long term threats to the European Dredgers' Competitiveness are mainly the unfair competition practices from large State-owned enterprises (SOEs)

- ☞ Benefiting from a closed (protected) domestic market;
- ☞ Developing strongly their export markets through tied aid schemes.

“Unfair competition practices are like coastal erosion: markets are eroded and lost at a steady pace; left untackled in the long term, they can wear out even the most resilient of companies”



Global Competition State-Owned Enterprises



Competition against SOEs is not easy.

In general, managerial inefficiency can lead to

- 👉 substandard (faulty) under-priced products or services;
- 👉 value destruction (>< added value) for the clients.

Private companies with Managerial inefficiency go bankrupt (MT-LT).

SOEs with Managerial inefficiency

- 👉 can remain in business (e.g. with capital injections);
- 👉 can keep inefficient business models or technologies;
- 👉 at the expense of competitors with competitive advantage;

SOEs have no Market Economy functioning or incentive.



Global Competition

Protected domestic market



No Market Access (e.g. China)

Before 2004 (pre-WTO)

- **temporary import** of dredging equipment allowed;
- beyond 6 months,
prorata taxation based on **14 years depreciation**.

After 2004 (WTO, decree 113)

- temporary import of dredging equipment not allowed
instead, **charter tax system** for building equipment
=> this measure was aiming at protecting local
shipbuilding
- theoretical access through WOFE or EJV
=> no access in practice (lowest qualification only)



Global Competition

Protected domestic market (continued)



Currently big differences in tax treatment between local Chinese and foreign dredging companies :

- about **30% higher taxes** for foreign dredging companies
- foreign dredging companies are paying about **15% higher taxes** than foreign shipping companies



Tied Aid Lost in Translation



Global Development Finance

- Private
- Public

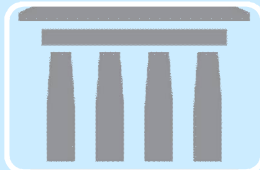
Private



- Worker remittances
- Foreign Direct Investment
- Portfolio Equity
- Debt
- Grants

State-Owned Enterprises ?

Public



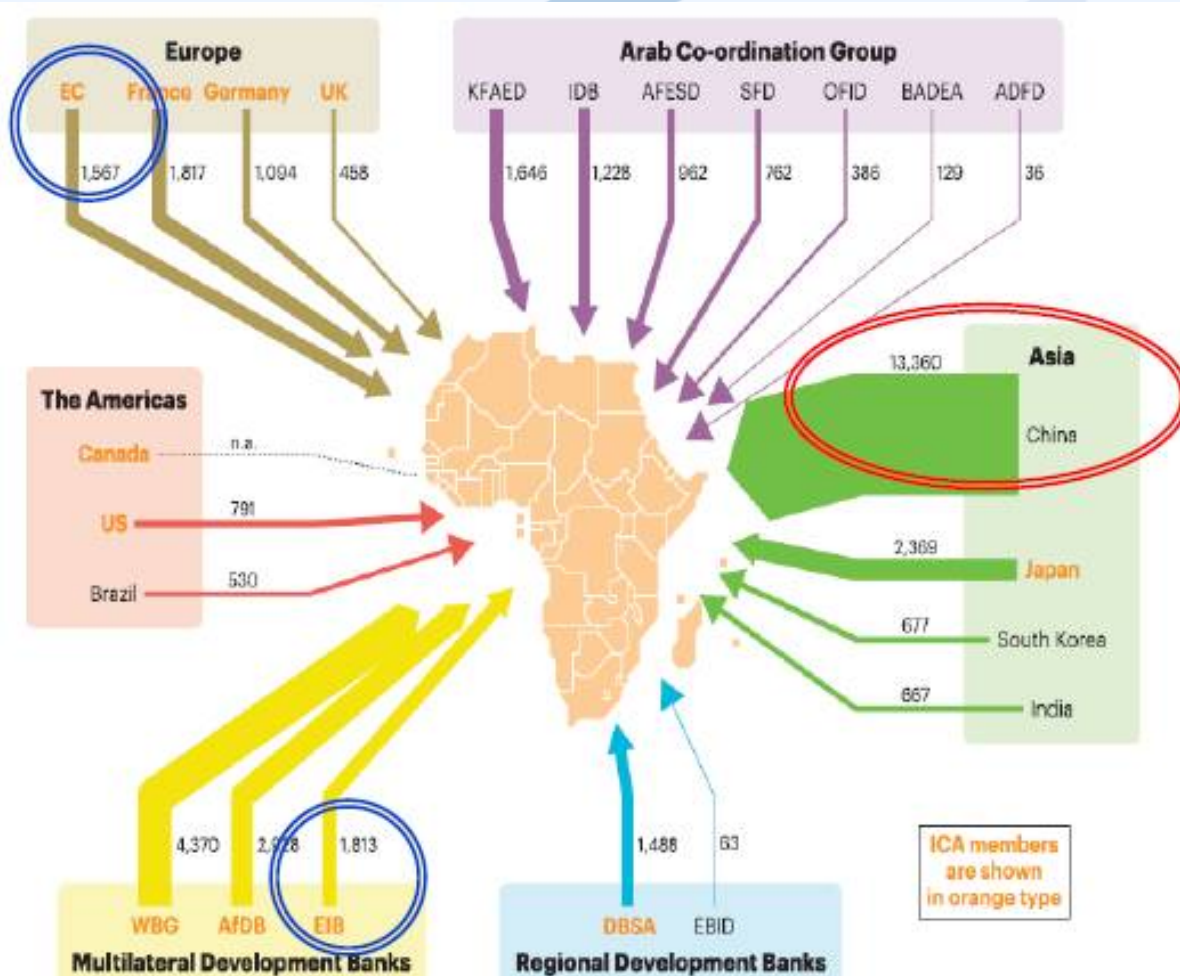
- Official Development Assistance
(Grants, Concessional Loans)
- Other Official Flows
(Concessional or market-rate Export Credits)



Tied Aid



The case of African Infrastructures



Tied Financing Arsenal: Development Aid

- Grants;
- zero-interest loans;
- debt relief;
- and concessional loans;

Financing Facilities

- export credit;
- market-rate export buyers' credits;
- commercial loans;
- equity funds.

For Donors' Goods & Services

Source: Annual Report 2012, Infrastructure Consortium for Africa

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Tied Aid



Chinese State Owned Enterprises

- ⇒ Strategic lines of credit and suppliers' credits
 - offered to China's 'dragon-head' companies (potential competitive multinationals);
 - mainly State Owned Enterprises
 - Financing platform offered by Chinese State-Owned Banks that combine different financial instruments:
 - ☞ export sellers' credits;
 - ☞ export buyers' credits;
 - ☞ import credits;
(allowing the company to finance imports of foreign technologies),
 - ☞ preferential foreign loans;
 - allowing SOEs to secure large foreign infrastructure projects (direct offers of vendor finance to the purchaser)



Tied Aid

Closing of markets



- ⇒ Markets are dried of any (other) competitor and (temporarily) closed.
- ⇒ Tied Financing Schemes stimulate the learning curve of Chinese SOEs outside China at the expense of competitors from countries with less organised or innovative financial firepower.





The Way Forward





The Way Forward

State Aid



1. “[...] The **Maritime Guidelines are needed** to compensate for the global competition distortions and should be kept (extended in time).
2. [...] the **inclusion of the loading phase** of the maritime dredging cycle under the scope of the Guidelines seems perfectly appropriate and [...] justify the exemption of the Dredgers from the ‘50% Rule’. [...]
3. [...], the **eligibility** to the Maritime Guidelines should be extended to the self-propelled ocean-going cutter suction dredgers as well as offshore service and supply vessels (e.g. cable/pipelayers, stone dumpers, jack-ups, ...).”



The Way Forward

Inside Europe



⇒ Juncker's Investment Plan for Europe:

- fully supported by the dredgers for the waterborne transport infrastructures;
- opportunity to promote rule of law and level playing field as well as reciprocity;
- opening the plan to companies from countries not open to European companies is reducing the impact of the investment plan inside Europe
- European long term project financing was drained after sovereign debt crisis and Basel III reforms: need for a European financial powerhouse institution to finance sustainable public and private investments in Europe;



The Way Forward

Outside Europe



⇒ (WTO) Market Economy Status for China:

- should be an objective and fact based decision (not political);
- effective enforcement of company law and international accounting standards;
- implementation of market economy principles;
- avoidance of governmental interference in the decision-making of companies;
- elimination of discrimination or unjustified restrictions, both for domestic and foreign operators;
- transparency of fiscal instruments and application of national treatment principle;
- enforcement of basic legal principles (notably on IPR, standardisation or certification, services regulations);



The Way Forward Outside Europe





The Way Forward

Outside Europe



⇒ “One Belt, One Road”:

- Powerful and innovative financing for “One Belt, One Road” (OBOR) infrastructure (China);
- However Chinese government support should not be the only guarantee of success;
- Need for equivalent financial powerhouse institution in Europe (e.g. EIB serving external policies) to finance sustainable public and private investments outside Europe;
- European Dredgers should be able to access the OBOR markets, including in China without discriminatory fiscal treatment, and eligible for funding from China.



Thank you !

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