



EuDA Annual General Meeting

15 November 2017, Brussels



“PROTECTIONSIM”

Medicine to a Right Illness or Poison Pill?

Dredging against Protectionism

Paris SAN SOGLOU

Secretary General

European Dredging Association

European Dredging Association 2017



Presentation's Objectives



Demonstrate that:

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

Reflect on the following questions:

- ⇒ Is the nationalisation of a functioning private dredging market a wise decision ?
- ⇒ Are there more suitable alternative approaches to increase competition ?

Provide food for thought on the decision of Germany to nationalise its mainly private dredging market to increase competition.

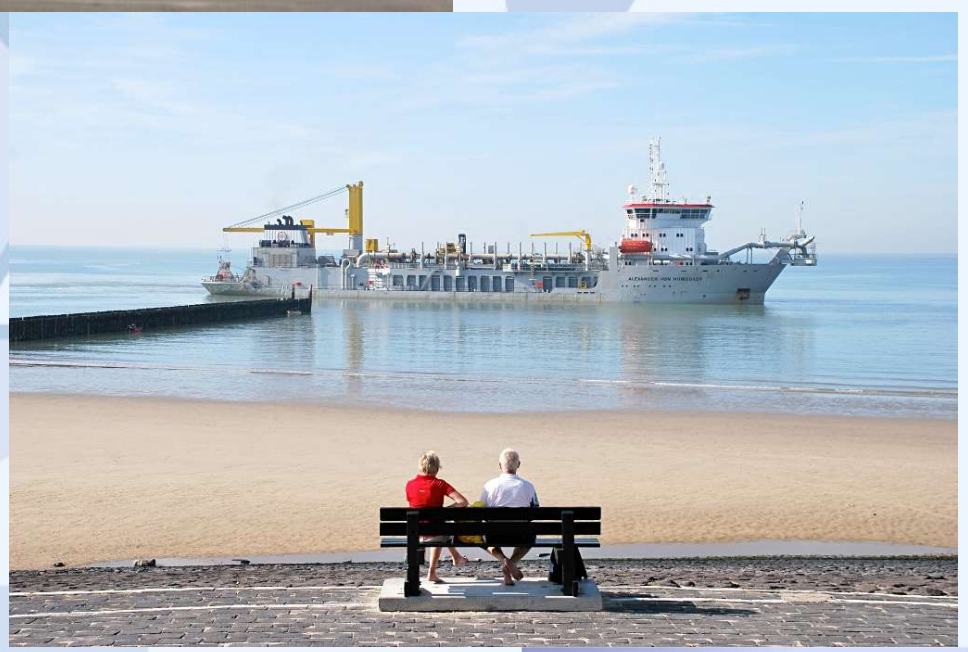


Agenda

- European Dredgers' Business Model
- Global Competition
- The Case of Germany
- Conclusion



Dredging is part of the Solution

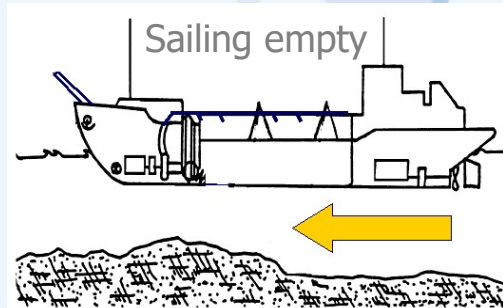
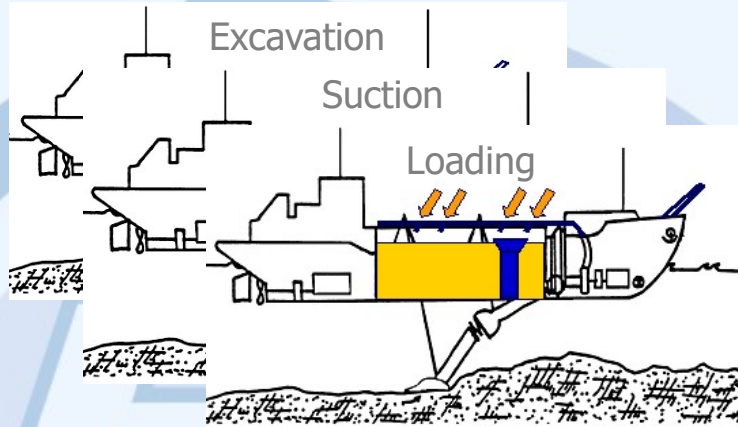
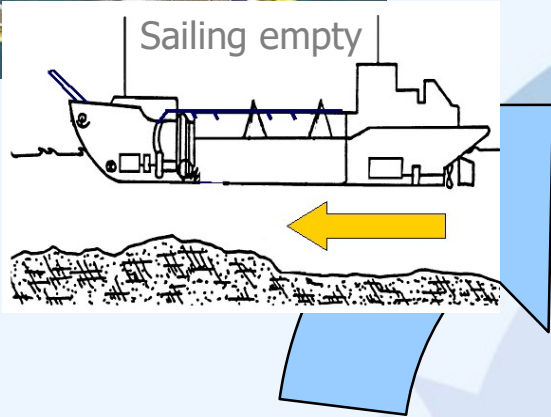
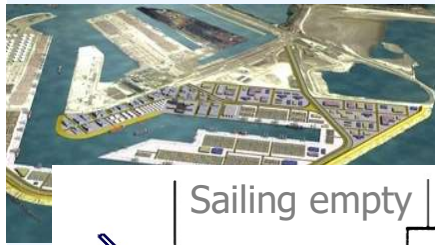


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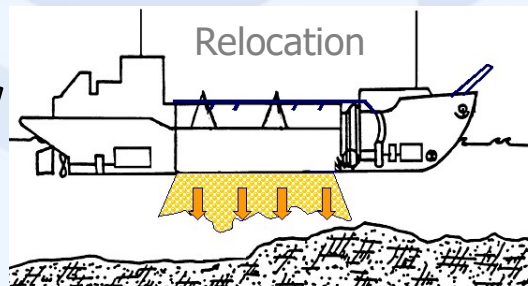
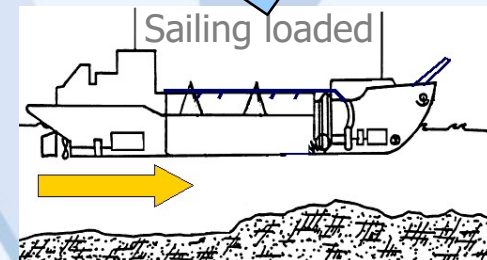
Dredging Cycle



- Sand
- Rock
- Gravel
- Silt



Mining
Transporting
Constructing



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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 on the sea”*



☞ Ports' access for bigger ships:

☞ *“Access channel deepening”*



☞ Guaranteed navigational depth:

☞ *“Maintenance dredging”*

☞ Contaminated sediments on seabed or riverbeds:

☞ *“Environmental dredging”*





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”*





European Dredgers' Business Model



European Dredging Association 2017



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

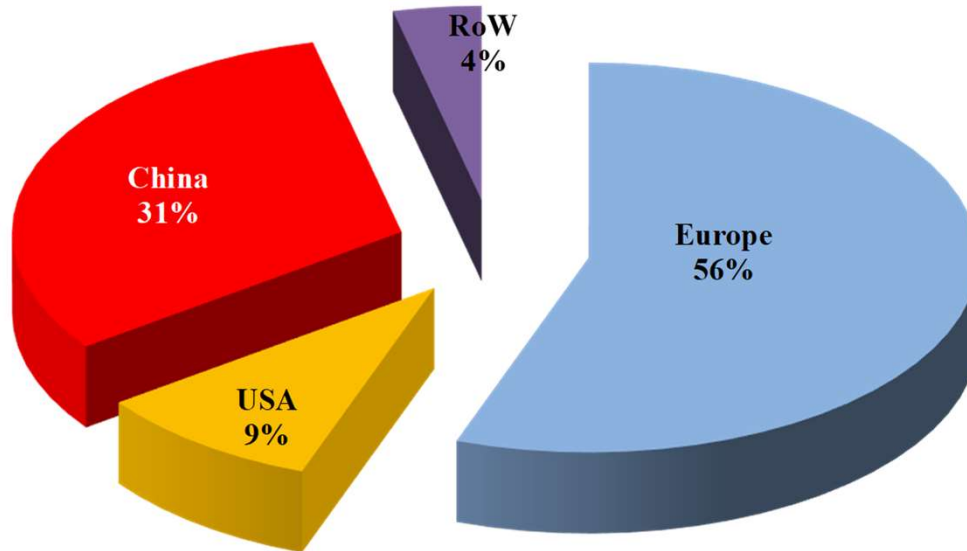


European Dredgers' Business Model

High added value



2016 World Dredging Market shares for selected Areas



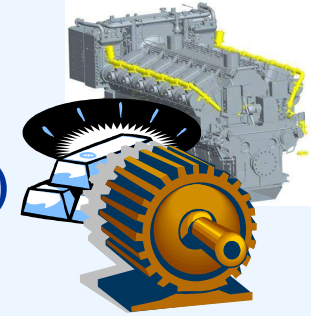
high-tech, high added value, high-wage





European Dredgers' Business Model

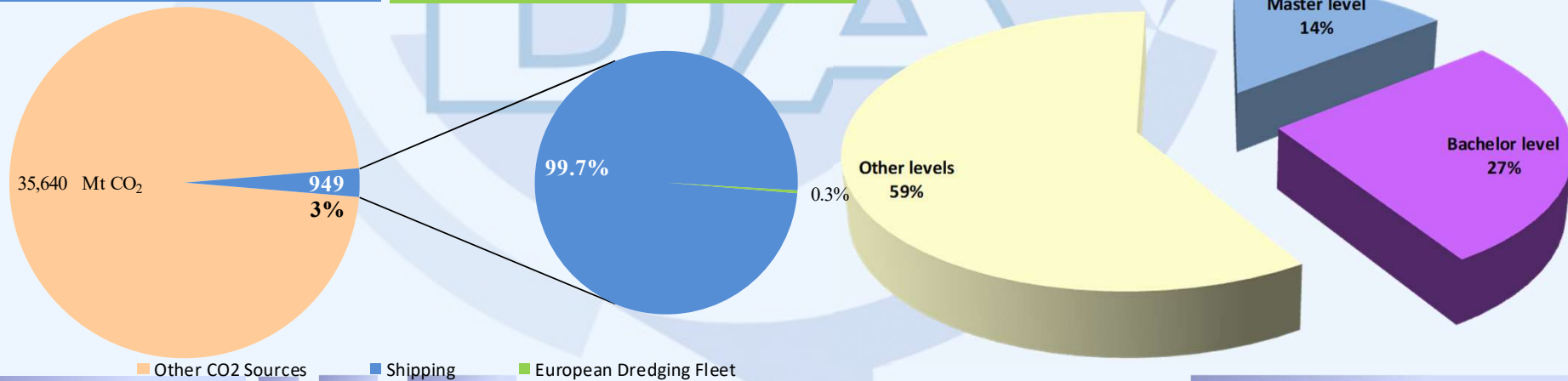
High added value (capital intensive & innovative)



- 2/3 of world's dredging projects (70% outside EU) bringing however 90% return back to Europe
- 11.1 billion € investments from 2008 to 2017
- 2.5% of total turnover invested in R&D
- largest, most powerful & most technologically advanced Fleet

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

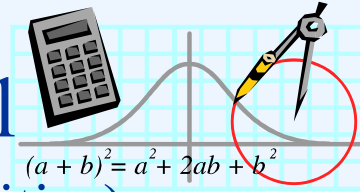
European Dredging Fleet:
0.3% of Maritime CO₂ emissions



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European Dredgers' Business Model

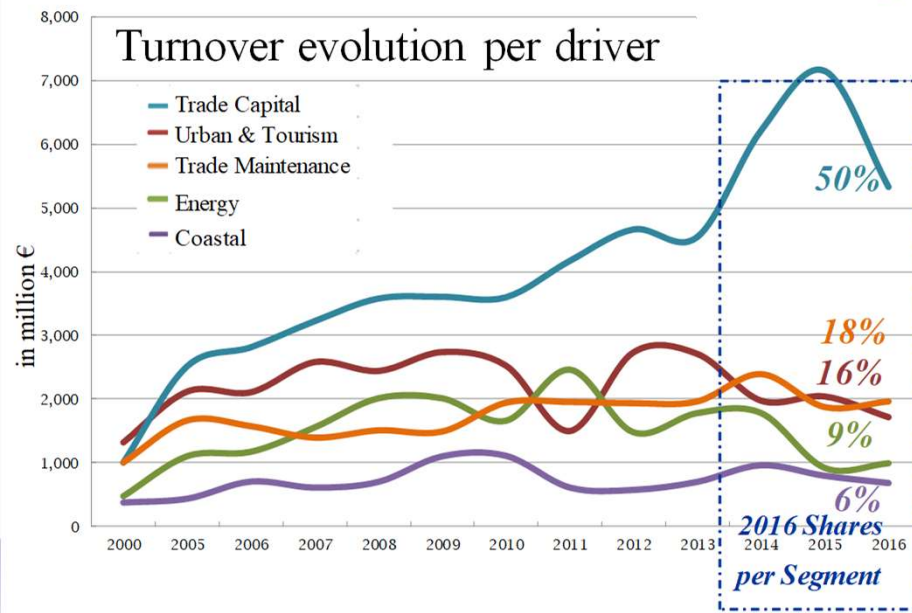
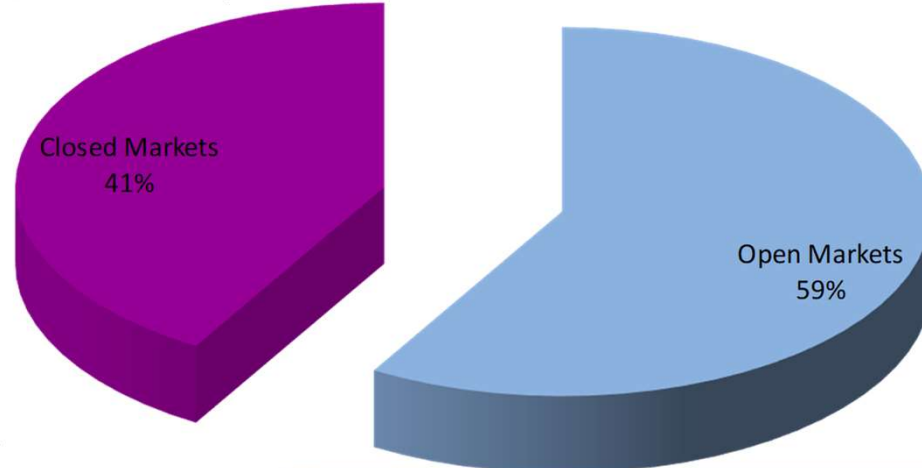


Acyclical industry (diversified international activities)

Annual turn-over dredging industry compared with other industries
(in billion €, 2016)

Toyota Motor	228
Royal Dutch Shell	222
ArcelorMittal	54
A.P. Møller-Mærsk Group	34
World Dredging Industry	14

Turnover (2016) € 13.9 bn



Association 2017



European Dredgers' Business Model

Creation of new opportunities

Coastal protection
Safe Place of Refuge
Nature development



"Multipurpose Island"

Vlaamse Baaien
Veilig, natuurlijk, aantrekkelijk, duurzaam, ontwikkelend





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 multiculturalism;
- ✓ the building of mutual trust with clients and stakeholders.



Global Competition





Global Competition Benefits



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

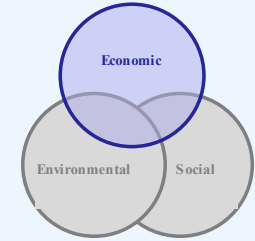
Effective competition, free of unfair practices, in functioning markets:

- ✓ stimulates
 - 👍 lower **prices**,
 - 👍 better **quality** goods and services,
 - 👍 greater **choice** for the clients;
- ✓ creates strong incentives for firms
 - 👍 to be more **efficient** and
 - 👍 to invest in **innovation**,
 - 👍 to improve their **productivity**.



Global Competition

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

Unfair trading practices



Unfair trading practices are measures or actions taken by companies or government that distort competition to their advantage or the advantage of their national champion and to the detriment of

- 👉 foreign competition;
- 👉 level playing field.

Action is needed against unfair trading practices;

“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 Protectionism



Protectionism is

- ↳ a policy introducing trade restrictions between countries
(market access restrictions, tariffs & non-tariff barriers, quotas)
- ↳ example of unfair trading practice,
distorting effective competition and
affecting the proper functioning of markets;
- ↳ NOT a protection (against unfair trading practices);
- ↳ negatively impacting economic growth and welfare of
the country and of the potentially exporting countries.



The Case of Germany

Map of the Elbe





The Case of Germany

Closing its market to foreign competition



Facts:

- ↪ Federal German Government publicly tendered for a new 7,500 m³ TSHD;
- ↪ Germany intends to give this TSHD for the dredging of the Elbe River;
- ↪ The impact of this decision can be estimated at reducing the size of the open German market by 27% (78% free =>51% free);
- ↪ This is a legal process of Nationalisation, whereby part of the service is provided by the State, without tender.



The Case of Germany

Issues



Issues:

- ↳ German Public Tender for building a TSHD is legal ...
 - ☞ tender concluded in October 2016 (a year before German general elections in September 2017);
 - ☞ tender attributed for €95mn;
 - ☞ nearly double market price (2 sister ships acquired for €93m in 2008 from the same Hamburg-based shipyard);
 - ☞ world leading TSHDs shipbuilder disqualified from tender, leaving only one bidder.



The Case of Germany 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 (value trap \gg 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 **cross-subsidisation**);
- 👉 can keep inefficient business models or technologies;
- 👉 at the expense of competitors with competitive advantage;

SOEs have no Market Economy functioning or incentive.



The Case of Germany

Issues (continued)



Issues:

↳ Nationalisation to improve competition ?

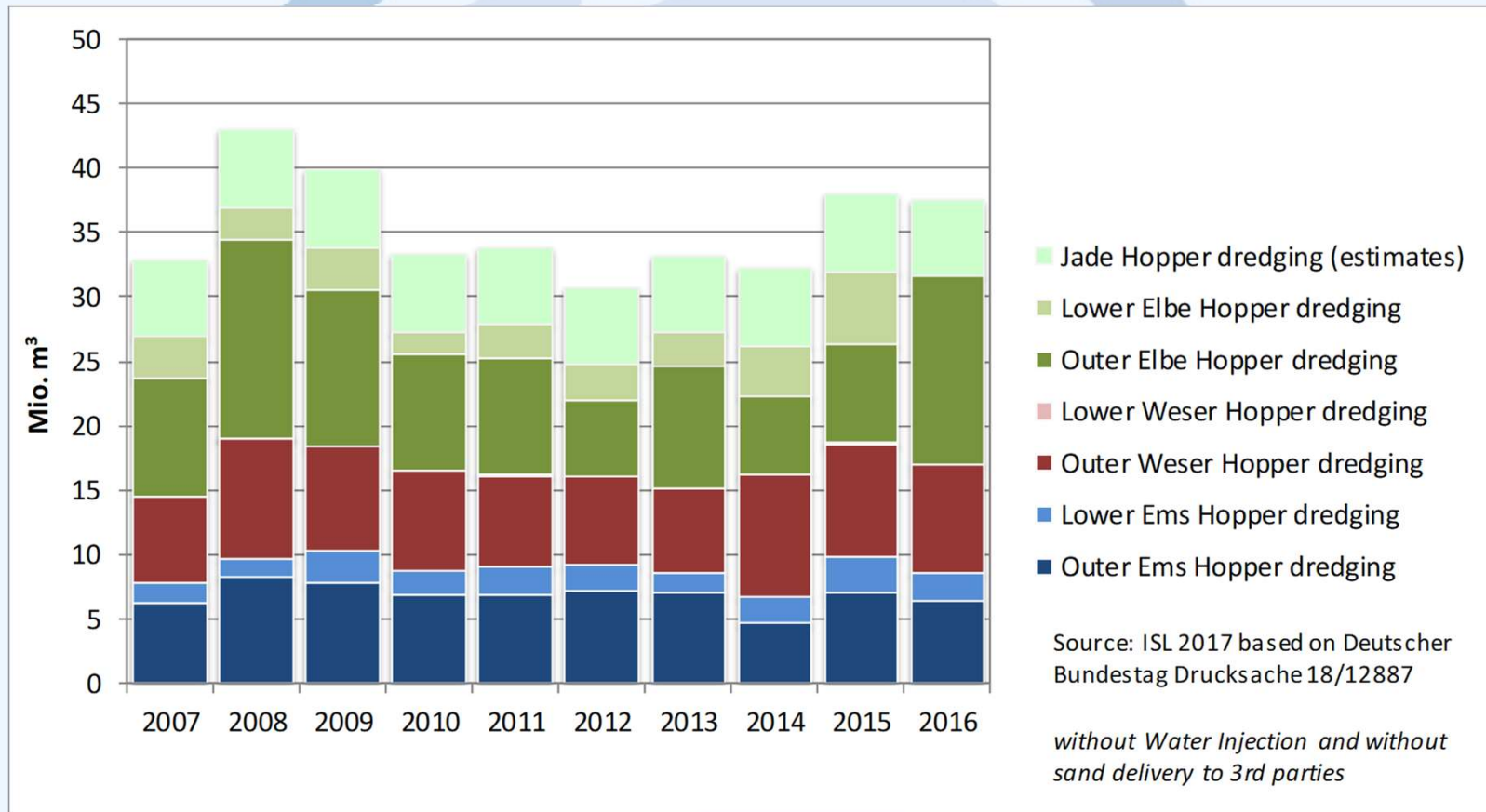
- ☞ currently dredging global demand is low (a lot of available capacity and fierce competition);
- ☞ tender requirements restrict competition (min 7,500 m³);
- ☞ how can a competition eliminating measure improve competition ?
- ☞ how can a State-owned Enterprise (SoE) meaningfully **outperform private world-leading competitors ?**



The Case of Germany Dredging Market Overview



German Dredging Market (~35mn m³/year)





The Case of Germany

Costs overview



Direct

Preparation (Site, Equipment, Investigations, Surveys)

Operations (specifications, quantities & dimensions, Fuel Lubricants, Repair, Wear & Tear, QHSE, Monitoring, subcontracting)

Clearance (dismantling, Documentation)

Indirect

Overhead (Equipment, Head Office, Financing, Agent)

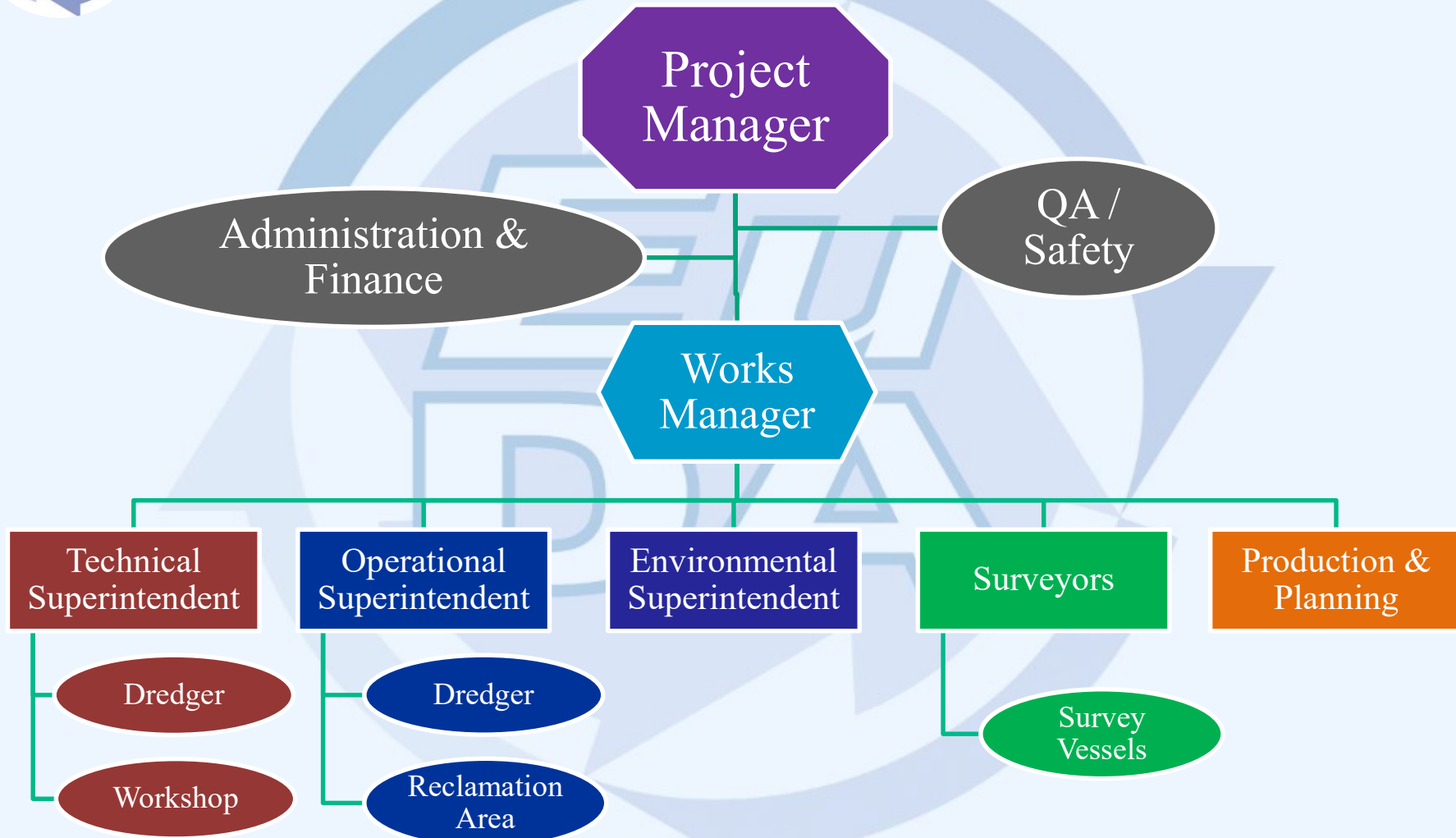
Taxes (Import Duties, VAT, Levies, Royalties)

Risks coverage (insurances, guarantees)



The Case of Germany

Project Staff overview



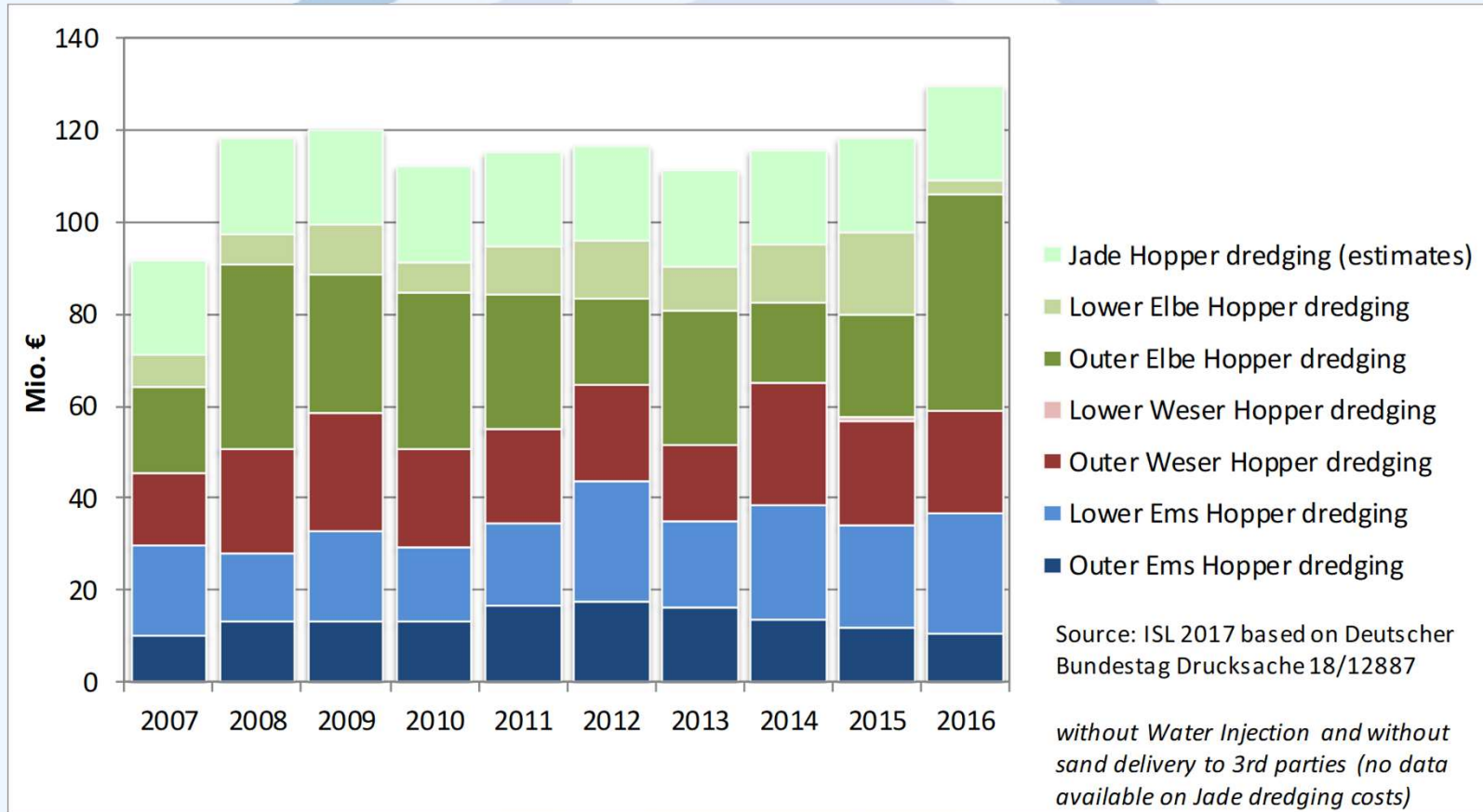


The Case of Germany

Dredging Market Overview (continued)



German Dredging Market (~ €110mn/year)





The Case of Germany

Impact of the decision ?



Nationalisation of the dredging of the Outer Elbe

- ↳ could **significantly increase dredging costs**
Who will pay the bill ? The German taxpayer;
- ↳ The Nationalisation will require new jobs:
50 crew + 4 engineers + a surveyor;
- ↳ The Nationalisation will cost existing jobs:
Private German dredging companies
employ around 500 mainly German employees;
contracting the market by 27% could lead
to contract employment by up to 27% (#135).



Conclusions





Conclusions



- ⇒ Dredging is not a problem
... it is part of the solution !
- ⇒ Is the nationalisation of a functioning private dredging market a wise decision ?
- ⇒ Are there more suitable alternative approaches to increase competition ?



Conclusions

A wise decision ?



Nationalisation of dredging is a process whereby a particular dredging service is no longer provided by competing private companies but by the State, without the use of public tender.

In the case of the dredging market, **nationalisation** is

- ☞ a form of **protectionism**, as without public tender, all competition is eliminated;
- ☞ **NOT** providing **protection** against unfair trading practices;
- ☞ an **unfair trading practice** that will negatively impact the domestic economic growth and welfare (increasing costs, reducing jobs and limiting added value).



Conclusions

Alternative Strategy



There are ways to improve the situation in Germany that will cost less for the taxpayers and for the employment:

- ⇒ use the newbuilt to **replace the old one** (on the Jade River);
- ⇒ **don't build a fleet of State-owned dredgers** to replace the private-owned;
- ⇒ **keep** the open part of **your market open**;
- ⇒ review your **tender requirements**;
- ⇒ increase **level playing field**, don't reduce it !



Thank you !

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What is EuDA about ?



EUROPEAN DREDGING ASSOCIATION





EUROPEAN DREDGING ASSOCIATION



- founded in 1993
- represents the European Dredging Companies
- from 20 EU Member States
- from 1 EEA Member State
- world leaders (top 4)
- with a turnover (2016): € 7.7 bn
- +/- 25,000 European direct employment
- >50,000 indirect employment (*supply and service companies*)

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

