

# Future for Marine Contractors in the Shipbuilding and Ship Repair Sector



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## INTRODUCTION

Currently, the marine industry climate in the country is growing in tandem with the needs of the maritime economic growth. The Shipbuilding and Ship Repair (SBSR) sector is a sub-set of the marine industry. Unfortunately, the marine sector is not one of the 12 NKRA's identified under the Malaysian Economic Transformation Programme (ETP). However, the closest match would be the Oil, Gas & Energy Sector that may have some linkages with the SBSR contractors. The following extract is an encouraging statement by the Honourable Prime Minister.

*"Oil, gas and energy are an essential driving force for any modern economy. Under the astute management of PETRONAS, the domestic oil and gas industry has played a crucial role in the growth of the Malaysian economy. However, after decades of oil and gas production, our domestic resources will inevitably start to deplete. To prepare for this, we will strengthen other value creating activities in the oil and gas value chain and ensure that we have a sustainable energy platform for the future. To this end, the Government will develop Malaysia into a leading oil and gas services hub in Asia, grow Malaysia's role in oil storage, logistics and trading and import LNG to serve latent gas demand and attract new-gas based industries. At the same time we will ensure that we develop an energy efficient, diversified and sustainable energy mix to power our future."*

Y.A.B. Dato' Seri Mohd. Najib Tun Abdul Razak

With reference to the above statement, the mention of strengthening other value creating activities in the oil and gas value chain, has created a need for Offshore Support Vessels (OSVs), work-barges and accommodation modules that are really, in essence, vessels and structures that will somewhat increase the demands of shipbuilding and ship repair sector.

Going away from the ETP initiative, with reference to the document released by Maritime Institute of Malaysia (MIMA)\*, on the review of the 1st National Marine Industries Forum 2010 in Kuala Lumpur on 23rd March 2010, signifies the importance of the industry in the context of Malaysian economy, as a multiplier, employment generator, export earner and supporter of maritime transportation in relation to trade. Further on, the review emphasised the key activities in marine industry as:

- Shipyard industry

- Marine leisure
- Support services

What poses as challenges to marine industry contractors are:

- Small domestic market.
- Stiff competition (local).
- Shortage of skilled workers.
- Shortage of high technology facilities.
- Lack of capital/financing to expand.
- Competition from neighbouring countries in pricing and delivery.
- Shortage of opportunities and if available are monopolised by bigger conglomerates.

## DISCUSSION

The list of issues that the shipbuilding and ship repair sector faces, as mentioned in paragraph 2, is not exhaustive but for the purpose of discussion, these will suffice. For the purpose of discussion here, the limitation is confined to only contractors in Malaysia and Malaysian-owned bodies. Malaysian-owned contractors are usually home-grown from conception and are owned by locals with limited funding. Therefore, these are small to medium industries which need business and capital funding and sustainable cash flow in order to survive.

### Small Domestic Market

Currently the demand for new ships-building and repair opportunities are limited and the market is shrinking. The reason for this is partly because ships generally last 25-30 years and ship owner will usually keep the vessel till the end of its life. Secondly, the high operating costs of periodic docking and repair of vessels can add up to a heavy toll on the owners' pockets. Because of this, owners will stretch the operations time for as long as possible or until it is absolutely necessary to send the vessel to dock.

### Stiff Competition (local)

As explained, the number of ships or vessels going to docks and shipyards for repairs is limited and this number is divided among local shipyards currently able to service the vessels. Competition is indeed stiff. Price wars are common and under-cutting quotations is widespread. The net result means that smaller shipyards which are merely surviving, will be adversely affected. So too will contractors depending on these shipyards. In the long term, the reduced number

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of vessels sent to shipyards for repair will signal the demise of such contractors.

### **Shortage of Skilled Workers**

To add salt to the wound, a shortage of skilled workers aggravates the situation as this reduces the capability of contractors who will then not be able to complete the work on time or within the correct quality standards. Sub-standard work entails re-work and re-work means delays and additional costs for the contractors. Naturally, ship owners are reluctant to have to spend more than necessary, especially when the fault lies with the shipyards and contractors entrusted with the repair of their vessels. Delays also mean the owners will lose revenue from charter hire and leasing. One reason contributing to the shortage of skilled workers is that they prefer to work elsewhere as, in shipyards, they may not be sure when they will get the next repair job.

### **Lack of High Technology Facilities**

Many local shipyards are not able to acquire high technology equipment because this is expensive. For those that have, it means a long higher purchase agreement on their hands and this adds to their monthly overheads. Some shipyards will transfer the burden of specialised tools and high technology equipment to their contractors and now, the risk lies with the contractors, along with the high overheads. It will be more difficult for contractors to survive if jobs are scarce and they have to maintain high overheads. Part of the reason is that the bigger, cash rich conglomerates often take the bigger chunk of shipbuilding and ship repair projects because smaller shipyards and contractors are incapable of investing in high technological facilities to do the job.

### **Lack of Capital/Financing for Expansion**

When shipyards are hit by a reduced number of jobs, the direct impact will be financial. Our local banks are very strict about giving out loans and when they do, the conditions set are stiff. The inability to expand will mean stagnation of repair and building capacity and this definitely hampers shipyards and contractors.

### **Competition from Neighbouring Countries**

If the stagnation or decline in the number of repair and building jobs can slowly kill off local marine contractors, competition from foreign neighbours who have been in the marine industry much longer is a bigger and more real challenge. These are not only cheaper but they can also do the jobs faster. Much can be debated with regards to the quality of workmanship but for ship owners, the fundamental bottom line is "cost" and how quickly the vessels can be readied to facilitate chartering. Countries like China have grown fast and even overtaken traditional SBSR countries such as Korea and Japan. The Government should take drastic action to regulate ships with Malaysian flag to be maintained in-country despite a slight hike in pricing, to facilitate experience and exposure, and it should be done for the survival of local marine contractors.

### **Shortage of Opportunities and Competition Controlled by Bigger Conglomerates**

Alas, when local marine contractors try to spread their wings and become a bit bolder, they run smack into competition with big local conglomerates and Government Linked Companies (GLCs) which have an edge over the small time contractors with little capital to fund the projects





Photo courtesy of Logimatic IPMS Denmark



Photo courtesy of FAMOS Ltd, Gdansk POLAND

and insufficient sustainability capacity. It seems to have become the norm for mega projects to be entrusted to big conglomerates via turnkey projects. Even when marine contractors manage to get a piece of the project package, it will be very difficult for them to fend off competitors with strong links with the conglomerates. Eventually they get squeezed out and all efforts put in as well as money spent to bring in Overseas Equipment Manufacturer (OEM) representatives will turn to dust. The plight of marine contractors are never seen as an issue that requires looking into but if the situation prevails, small marine contractors will perish or barely survive.

### Some Remedies

It may appear that the future for marine contractors is bleak. One of the fundamental approaches to this is Strategic Management. In meeting the challenges head-on, marine contractors must focus on formulating, implementing and evaluating cross-functional decisions in order to achieve the set objectives. It encompasses the following, by integrating<sup>11</sup>:

- Management
- Marketing/finance
- Production/operations
- Research & development, and
- Information systems

Marine contractors which have the five elements embedded in their strategy plans, will have a higher survivability rate. To achieve these, contractors need to invest and continuously improve their capabilities and capacities.

However, preparing themselves strategically is not enough, as marine contractors must then build their business along the platform that has the following elements<sup>12</sup>:

- Leadership capability
- Business plan that is far reaching and well mitigated in risk aspects
- Develop competent work force
- Focused on product and service excellence
- Solid marketing plan
- Perfected sales plan

The above elements are essential for building a great business. Entrepreneurial enthusiasm and business acumen are traits that contractors must have and need to continuously develop to assure success.

### CONCLUSION

In light of the current economic climate – where the cost of living is increasing, raw materials for industrial purposes are difficult to acquire, labour prices are increasing (especially with the imposition of minimum wage), tighter immigration rulings and many other impediments – marine contractors are finding it difficult to survive and sustain their business.

The challenges are very real and will always pose as a threat against success. However, focusing on the remedial actions suggested in the above paragraph should afford some solutions in meeting and circumnavigating the hurdles. Building a solid strategy plan and managing it well with relentless vigour and extreme perseverance, marine contractors have a possible chance of surviving and, coupled with the attributes that are pre-requisites to a successful business venture, will lead to more competitive market participation.

In summary, the challenges faced by local marine industry contractors will prevail and it is entirely up to them to meet the challenges using the most appropriate approach. An approach aligned to strategy management and best business practices will produce marine contractors that are focused and competent, not only technically but also in business and the ability to pursue market forces. ■

### REFERENCES

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