

Opportunities Aplenty in Maritime Industry

by Ms. CC Tan



LAKSAMANA Madya Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor retired as Chief of the Royal Malaysian Navy (RMN) in 1999. But he is busier than ever. Not only has he taken on the heavy mantle of Managing Director of Boustead Heavy Industries Corporation (BHIC) Berhad, he is also currently president of the Association of Maritime Industries Malaysia (AMIM), Chairman of the Maritime Institute of Malaysia (MIMA), and Vice-Chairman of the Malaysian Industry-Government Group for High Technology (MIGHT). Here, he shares his thoughts on the maritime industry with **JURUTERA**.

Q:

According to UNCTAD statistics, the volume of international trade carried by sea in this region increases every year. What is the prospect like for the local marine industry?

Tan Sri Dato' Seri Ahmad Ramli: I think the traffic in the Straits of Malacca and the volume of activity in our ports are certainly increasing. If I'm not mistaken, services at our ports has been growing at about 20% annually. This means trade is still very active.

There are lots of opportunities because when the ports are active, there will be a lot of services required, including providing assistance to ships in the form of tugging, repairs and so on. If these are better organised, it will be even better for the ports and the industry as a whole.

Q:

Are we – the players in the industry – strategising ourselves well?

Tan Sri Dato' Seri Ahmad Ramli: From my own observation, there's still a lot of room for improvement. We often find that the real players are actually not locals but are from places like Singapore. This is why we have to be more competitive and we have to organise ourselves better.

Q:

So is it because we've not been organising ourselves well that foreign players have come in so easily?

Tan Sri Dato' Seri Ahmad Ramli: Yes. As a business, you have to be good and competitive. At the end of the day, it's all about money, which means we have to provide quality services at competitive prices. This will help attract more traffic to the ports too. This is something that we (the industry as a whole) have to push for. Of course, there are also policy issues that must be addressed to encourage the industry to grow.

Q:

Would you like to name a few that we should look at?

Tan Sri Dato' Seri Ahmad Ramli: In terms of encouraging the local marine industry, Singapore's tax structure, for example, is more attractive. Here, the tariffs are not so competitive. So local players, especially shipbuilders, are finding it difficult to compete with China or even Singapore. The irony of it is that in Singapore, labour is so much more expensive.

Of course, this is something that both AMIM (Association of Maritime Industries Malaysia), ship owners and, to some extent, MIGHT (Malaysia Industry-Government Group for High Technology) are seeking to improve. Because the issue here is not that the government does not want to do it, but that we have competing interests. So it must be done in such a way that every interest group is balanced and synergised.



Q: So it's got nothing to do with a lack of aggressiveness on the part of the industry players?

Tan Sri Dato' Seri Ahmad Ramli: Put it this way – it's a business venture. Everyone wants to go into business and they have to look at the bottomline. If the environment is such that they find it difficult to compete, they will not invest. That's the issue here. In a way, it's a chicken and egg situation.

Q: In 2011, the Prime Minister launched the Shipbuilding and Ship Repair (SBGR) Industry Strategic Plan 2020. Can you briefly tell us what the plan entails and how much of its target has been achieved?

Tan Sri Dato' Seri Ahmad Ramli: Roughly, we want to capture a big portion of the activities with regard to shipbuilding and shiprepair because of our strategic location. I believe the Straits of Malacca is one of the busiest strait and the biggest too, second only to the English Channel. There is a lot of ship movement and a lot of calls at our ports. We also have activities in offshore oil and gas, as well as regional and local shipping activities. All these require services and ships. Yet, we have not been able to capture a fair share of the shipbuilding and shiprepair (works).

Currently, the oil and gas companies send their vessels to Indonesia, Batam or Singapore and new vessels are commissioned in China. We want to capture 80% of the local shipbuilding. At the same time, we don't want to be competing with the likes of Korea or Japan which build huge vessels. So we're trying to capture the lower-end market, such as vessels around 120m.

We also want to capture some of the international vessels that pass through, for repair and maintenance. So we have to improve our ship repair and maintenance facilities. We also want to capture 2-3% of the international (shipbuilding) market. It's not much but it's still a lot. Currently, we export about RM2 bil (in ships) a year. A lot of ships built in Malaysia are sold overseas, but we think we can do much better. We want to have fair, realistic targets and if we achieve these, we should be able to create about 55,000 jobs in the sector and probably have a turnover (annual) of about RM10 bil. But where we are at the moment? It's not been reviewed yet.

Q: So we don't know what we've achieved so far?

Tan Sri Dato' Seri Ahmad Ramli: On our part, I think we've done quite a bit because we are, shall I say, one of the main players in the industry. This year the government has provided a special allocation of RM3 bil to assist the marine industry, so there is some recognition. Petronas is also giving out a lot more contracts – I won't say these are for long-term, but they're sufficient for shipowners to obtain better facilities from the bank.

Q: Can you suggest some ways to fast track our achievement for this SBGR 2020?

Tan Sri Dato' Seri Ahmad Ramli: The only way is to have a proper understanding of the requirements and at the same time, the government will have to create an environment that will encourage the industry to grow. We're way behind compared to what the Chinese government or even the Singapore government is doing.

In China, banks are very generous to the players who also have very easy access to land for shipyards. There are also incentive schemes for the industry to go overseas.

Similarly, in Singapore, the tax structure is very supportive of the industry. I think this is probably because Singapore realises that, although Finance is now becoming the star-player, it must continue to create a sustainable environment to support the industry as it's one of the busiest ports in the world and a marine hub. This is something where we have to come together – the industry, the government and all the stakeholders.

As mentioned earlier, there are many competing interests in the industry. In shipbuilding for example, there are people who like to monopolise certain activities but this has an impact on the industry. This is where I think all the stakeholders have to harmonise their requirements so that the government can come up with more balanced, friendly policies.

For example, people in Sabah and Sarawak complain that goods there are expensive because we restrict the transportation of goods within the country to Malaysian-flagged-and-owned vessels. But there are countries in the world which have policies that are much more stringent, like the American's Jones Act. We don't necessarily want to copy everything from them; we can see that on one hand, there's this drive towards openness but on the other hand, people are not really as open as they say they are. So for us, the industry has to really harmonise and work towards being more competitive and efficient.

Q: In 2012, the government announced that developing Malaysia as a shipbuilding and ship repair hub will be one of the Entry Point Projects under the Business Services thrust of the National Key Economic Areas (NKEAs). Can you share with us this initiative and its achievements so far?

Tan Sri Dato' Seri Ahmad Ramli: This is peculiar to BHIC because we're one of the companies singled out to champion this activity, particularly in Peninsular Malaysia.

In this programme, we undertake to do various things. For example, we have to come up with our own ability to design a range of vessels. In this case, we want to design offshore support vessels (OSV) for the oil and gas industry because one of our problems is that we don't have a full-fledged design house. So we depend on foreign design houses which would just give us the basic designs.

When it comes to the construction, the details and variations that are needed would only come in bits and pieces, depending on their speed and priority.

We cannot depend solely on these design houses. We have

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to build our own. That's why this year, we have to be able to design one OSV and build one by next year. I think we're on track with that. We also have to train a certain number of design naval architects as well as about 100 skilled workers per year. By 2020, we have to create a new GNI (gross national income) of about RM500 million per year, which means that we have to be able to build, export and create jobs.

As for the building part, we need government assistance because many shipowners prefer to go to China which is cheaper. In order to have them commission one to be fully built here, the government must give shipowners incentives, such as a subsidy or some other form of encouragement.

Of course, at the same time, we have to be competitive ourselves. We actually did a rough industry survey and found that we are, in reality, competitive. For example, some shipowners who had tankers built cheaper elsewhere had to spend more later to make the vessels sea-worthy.

Q: Isn't the government aware of the limitations that the industry faces?

Tan Sri Dato' Seri Ahmad Ramli: The government is aware.

Q: Then why is it so slow in responding to the changes in the environment?

Tan Sri Dato' Seri Ahmad Ramli: Everyone's agenda has to be harmonised. For example, shipowners want to buy cheap, but sometimes you don't get what you really want. Some like to build overseas because they get to travel.

As long as everyone's interests are not harmonised, the more active lobbyist will get his way but not necessarily to the interest of the country or the government. If ships are built here there'll be economic spin-offs, but the government is so preoccupied with other things, so unless someone champions the cause... This is why AMIM, MIGHT and, to some extent MIMA, is initiating it. Unfortunately, I am in all three (laughs).

Q: In the 2014 Budget, the government had, as you mentioned earlier, allocated RM3 billion in soft loans under the Maritime Development Fund, through Bank Pembangunan Malaysia. With this, do you foresee any growth in shipbuilding activities?

Tan Sri Dato' Seri Ahmad Ramli: The bank has to be more sympathetic. The money is available but it will be difficult to get if conditions are too stringent.

If, for example, a bank asks for 30% fixed deposit before you can take a loan, that's a big sum of money, especially for vessels in the region of RM30 million. Not many companies have that kind of money, especially shipowners. But of course, banks have to look at the security in getting repayment. So there must be a solution where the owners can get financing while the banks are assured of repayment.

Q: What would you recommend to ensure local shipyards gain the most from this allocation?

Tan Sri Dato' Seri Ahmad Ramli: We have an association, so we communicate all these things to the industry. We encourage players to bid for it and, if they have problems, to give us feedback. So far, we have not received any feedback.

Bank Pembangunan had encountered a bit of bad experience before, so perhaps it's a bit wary now. Admittedly, you do need to come up with at least some fair portion of the cost, but if you don't have that amount, you cannot do anything. Both sides have got to find a compromise.

Perhaps Petronas, the major service consumer of these vessels, can give out five-year contracts, which shipowners can use as collateral to build confidence – because, as we know, banking is about confidence.

If other notable associations of financial standing, such as EPF (Employees Provident Fund), are to own ships, it will give further assurance to the bank that it will be getting repayment. All these (factors) have to come together so that everybody is secured, so that everybody can get their share of the market. It has to be a multi-partied approach and where everybody's interests are protected.

“We want to capture a big portion of the activities with regard to shipbuilding and ship repair because we are very strategically located.”

Q: The government has awarded the building of 6 new warships to BHIC. What are the challenges faced in building all the ships locally?

Tan Sri Dato' Seri Ahmad Ramli: This project is worth about RM9 billion and is probably one of the single largest contracts in the country. Because of this, the demands are also very stringent and we have to be able to achieve international standards. It's a good thing though because it raises our benchmark. That's a challenge. But at the end of the day we have to have the right people to manage and implement the project.

Q: Is getting the right people a problem?

Tan Sri Dato' Seri Ahmad Ramli: It is but if we can't get the best, we will get the next best and train them. A more established company, DCNS, will be assisting us. Yes, the challenge is there, but God willing, we will be able to achieve it.

Q: How is the progress so far?

Tan Sri Dato' Seri Ahmad Ramli: We're on track. We have virtually built the ship on paper. The way construction is done today, before you cut the steel, everything is predetermined. I think by next month we can virtually walk through the design. The first steel-cutting should be next year.

Q: BHIC and DCNS have been given the responsibility for the maintenance of the RMN submarines. What is the progress of the transfer of technology between BHIC and DCNS?

Tan Sri Dato' Seri Ahmad Ramli: Satisfactory, though I want more. I think we'll meet the target next year. Some of the talents we need are difficult to get. We don't have local people who can meet our demands. We're training people but for them to reach the level we need, they must have a certain number of years of exposure. We will catch up. It's satisfactory at the moment – at 70% – but there's still a lot of work to be done.

Q: Can Malaysia undertake the total maintenance of the submarine without the involvement of DCNS anytime soon?

Tan Sri Dato' Seri Ahmad Ramli: We should be able to do the first-line maintenance ourselves next year. The other challenge will be when we have to refit – that's a major overhaul and one that we have to train more people for. For a major overhaul, you will sometimes have to rebuild large parts of the submarine. We're training people for that now.

Again, it's another programme for the transfer of technology. A lot of Third World countries which buy submarines have to send them back to the builder for major overhauls. We are now working at doing it here.

Q: The current trend is for local shipyards to partially build in China to reduce the cost. This could affect the future of shipbuilding in Malaysia. How can this trend be reversed?

Tan Sri Dato' Seri Ahmad Ramli: All these will change eventually. Firstly, the Chinese government is finding it difficult to subsidise and secondly, when China improves, it won't be as cheap as it is now. Meanwhile, the cost of labour in Singapore continues to be very high. So it will get more competitive.

At the moment, we are so open – anybody can take advantage of the loopholes in our policies. For example, Petronas has a policy of using only Malaysian-flagged vessels. But many Singaporean shipowners register their ships in Labuan and once you've registered there, you're considered a Malaysian-flagged vessel. This is one thing we have to address.

Q: Shiprepair facilities in the East Coast of the peninsula is very lacking. Ships, especially OSVs, have to go to Singapore, Batam or the West Coast for repairs. What is AMIM or BHIC's plan to enhance the facilities? What kind of support would you expect from the Federal and State governments?

Tan Sri Dato' Seri Ahmad Ramli: We've been telling our members of the opportunities available and to work with Petronas to encourage activities there. But Petronas can only do so much. Others will have to do their part. People will have to invest. So we encourage our members to look into these opportunities.

At the same time, the East Coast is quite limited in terms of natural harbours because of the monsoon and the river entrances there are subject to changes in currents. I know a lot of people who have tried to invest but they find it more expensive than say, investing in the West Coast or even in Sabah or Sarawak. Having said that, we are not giving up.

Meanwhile, the State governments in the East Coast must be willing to help allocate suitable sites for the building of these facilities. At the moment, such sites are scarce and it's not easy to access the current ones.

Q: Does AMIM or BHIC plan to expand the shipbuilding and shiprepair activities to neighbouring countries like Myanmar?

Tan Sri Dato' Seri Ahmad Ramli: That is very much a business decision. It's not easy to convince people to invest but we do encourage our members to look into all opportunities. Like anything else, when you go to a new market, you have to be very, very sure; you must understand the market there.

Q: What do you think of the competency of young engineering graduates? Are they meeting the industry's requirements?

Tan Sri Dato' Seri Ahmad Ramli: There is plenty of room for improvement in how our engineering graduates are prepared. University graduates in Europe, (such as France and Germany) for example, are able to fit in better to industry demands. They have a system where while they're doing their studies, they're also doing practical work in the industry.

Here, graduates may be very good with the theory part but they require a lot of exposure and retraining to fit in. This is why we have the Young Engineers Programme where we recruit grads – generally those with CGPA 3.0 and above – and train them for a year. After that, they are encouraged to work with us and most of them do. So far we have recruited about 70. ■