Status update of the Malaysian shipbuilding / ship repairing industry

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Presentation outline

• Overview / state of play of Malaysia’s shipbuilding / ship repairing (SBSR) industry
• Malaysia Shipbuilding / Ship Repair Strategic Plan 2020 (SBSR 2020)
• Recent developments affecting Malaysia’s shipping capacity
• Statistics
• Issues, strengths, opportunities, outlook
• Conclusion
Overview of Malaysia’s SBSR industry (I)

- Part of the marine transport sub-sector of the larger transport industry.
- Consists of enterprises involved in manufacturing (namely shipbuilding, production of vessels and marine equipment) and service (i.e. designing, repairing, maintaining, converting and upgrading of vessels and marine equipment).
- ‘Vessels’ include pleasure crafts, ocean going, near coastal, government, passenger, fishing vessels, OSV.
- ‘Marine equipment’ includes parts / components fitted & integrated to form ship sub-systems/systems.
- Shipyards produce export-grade vessels renowned for price competitiveness, durability and functionality.

Overview of Malaysia’s SBSR industry (II)

- Generates economic multiplier effects and targeted to create RM6.35 bil. in GNI and 55,000 jobs by 2020.
- Most yards specialize in building small-medium size vessels i.e. ferries, barges, tugs, OSV, yachts, fishing vessels, patrol crafts, yachts.
- The larger yards can build/service bigger ships (i.e. bulkers, tankers), fabricate/ service offshore structures, and do upgrading and conversion.
- Key export markets include ASEAN (80% of total exports in 2013), Americas, Africa and Europe.
SBSR industry categorization

**Source:** MIGHT

**Yards in Peninsular Malaysia**

Majority specializing in steel and aluminum vessels for government agencies and oil and gas industry.

- **Major yards:**
  - MSET Shipbuilding
  - Tok Bali Dockyard
  - Kay Marine
  - Geliga Shipyard
  - Boustead Naval Shipyard
  - Great One Marine
  - Sumber Samudra
  - Malaysia Marine & Heavy Engineering

- **Small yards:**
  - Muhibbah Marine Engineering
  - Selat Melaka Shipbuilding Corp.
  - TH Heavy
**Yards in Sabah / Sarawak**

Majority specializing in building steel and aluminum vessels i.e. OSV, tugs and ferries.

- Shin Yang Shipyard
- Nam Cheong Dockyard
- Sarawak Shipways
- Kian Juan Dockyard
- Berjaya Dockyard
- Sapor Shipyard
- Far East Shipyard
- Gimhwak Shipyard
- Tuong Aik Shipyard
- Shin Yang Shipyard
- Labuan Shipyard & Engineering
- Sandakan Jaya Teknik
- Seri Modalwan
- Weldan Marine Services
- Labuan Shipyard
- Sarawak Slipways
- Kian Juan Dockyard
- Berjaya Dockyard

**Current operating landscape**

- The industry is facing headwinds arising from low demand for new ships / offshore structures amid the global recession and downturn in the shipping and oil markets.
- Yards are suffering from low orderbook as companies delay fleet expansion, national oil company Petronas scales back capex / offshore projects.
- Malaysia practices a liberal Cabotage Policy that does not require local shipowners to use ships built at local yards to serve domestic shipping.
- Exports have been adversely affected as countries like Indonesia tightens Cabotage Policy.
- The emphasis is on MRO as owners order fewer newbuildings / offshore structures and prolong the life of existing assets.
**State of play**

- There are around **100 yards and 40 companies** supporting the SBSR industry in Malaysia. Around 80 yards in Sabah & Sarawak contribute **65%** of total local newbuilding.
- Only half of vessels required by local shipowners annually are built locally and most large offshore structures owned by local companies / used in local waters are imported.
- Many yards rely on **foreign labor** in technical areas and **foreign designs** (for big and sophisticated vessels and offshore structures).
- Many shipowners prefer to build vessels in **foreign yards** where costs are generally cheaper and delivery faster compared to here.
- Local marine equipment still not reaching global markets.
- Some yards build on speculation and are now saddled with overcapacity in certain types of vessels, most notably in **OSV sector** owing to downturn in the oil industry.

**SBSR industry statistics 2013**

- Malaysia contributed **1%** of world newbuilding orderbook and was ranked **26th** in list of nations with largest merchant fleet (**1,454 vessels** of >100 GT and total tonnage of **6.993 mil. GT**) (*IHS*).
- Local yards generated **RM 8.36 bil. revenue**.
- Malaysia exported **RM1.0 bil.** worth of vessels / floating structures and imported : **RM6.87 bil.**
- 2 projects approved worth **RM33.5 mil.** (63% FDI).
- SBSR industry employed **35,000 people**.

*Source: MIGHT*
Newbuildings 2006-2013

Newbuilt Vessel

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<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>2006</td>
<td>244</td>
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<td>283</td>
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<tr>
<td>2012</td>
<td>248</td>
</tr>
<tr>
<td>2013</td>
<td>236</td>
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</table>

Source: Adopted from Marine Dept., Classification Bodies & MIGHT

Newbuilding by vessel type 2012-2013

Newbuild - Vessel Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Government</th>
<th>Passenger</th>
<th>Specialty Ship</th>
<th>Others</th>
<th>Offshore</th>
<th>N. Coastal</th>
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<td>5</td>
<td>37</td>
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<td>14</td>
<td>18</td>
<td>23</td>
<td>6</td>
<td>172</td>
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</tbody>
</table>

Source: Marine Dept.
Value of vessels imported & exported 2009-2013

Source: Marine Dept., class societies, MIGHT

Imported & exported vessels 2009-2013 by gross tonnage

Source: Marine Dept., class societies, MIGHT
**SBSR 2020**

- Launched by Prime Minister Najib Tun Razak in 2010.
- Acts as a roadmap for the development of SBSR industry in Malaysia and sets targets to achieve by 2020.
- Major aims: to make Malaysia a major player in the small to medium-sized (<120m) shipbuilding markets renowned for the quality and value of its products; and to enhance SBSR industry’s contribution to the economy and create high income, value adding jobs.

**Recent developments affecting shipping capacity in Malaysia**

- Several shipping companies have laid up vessels without contracts while several have commissioned specialized OSV to bid for contracts.
- MISC, the largest shipping line, exited container business in 2011, and disposed of 7 chemical tankers in 2014.
- MISC is due to take delivery of an FLNG in and has secured a contract novation from Petronas for 5 new LNG tankers built in South Korea.
- MISC is progressing into new opportunities such as DP shuttle tankers and modular capture vessels (MCVs) to further compliment its position as the leading tanker operator in the US Gulf.
Challenges in Malaysia’s SBSR industry

Internal challenges

• Absence of supportive enabling environment
• Lack of incentives for SBSR industry players
• Too many yards offering same products/services
• Overdependence on local contracts
• Inefficient supply chains
• Modernizing / automate / adopt new technologies
• Improving products / service offerings
• Adhering to international standards & conventions
• Attracting investment
• Providing adequate/competitive local financing
• Providing adequate / skilled labor esp. local labor
• Labor drain from SBSR industry to other industries
• Boosting local contents in SBSR industry

External challenges

• Slower demand for yards’ products and services from shipowners / offshore oil & gas players at home and abroad
• Overcapacity in shipping / offshore structure markets
• Changing trade / economic / strategic / political landscapes not in favor of local SBSR industry
• Forex fluctuations not in favor of local yards
• Competition from more cost-effective foreign yards
• High cost of imported raw materials and services
• Disruption in international supply chains affecting Malaysia’s SBSR industry
• Standard rated status of shipbuilding under GST
**Strengths to leverage on**

- Support to SBSR industry from the Government.
- Availability of long term strategy in the form of SBSR 2020, focusing on small-medium size vessels and capitalizing on oil and gas industry.
- Malaysia is surrounded by busy shipping traffic and a dynamic offshore oil and gas industry.
- Some local yards are known for quality products and services coveted by foreign clients.
- Malaysia adheres to high international standards in shipping and oil and gas industries.
- Malaysia has excellent infrastructures and supply chain networks which provide conducive ecosystem for local SBSR industry to grow.

**Opportunities to reap**

- Tapping into shipping traffic / offshore oil and gas activities in South China Sea and Malacca Straits.
- Taking advantage of Malaysian economy’s dependence on shipping and offshore oil and gas industry.
- Attaining better utilization of resources and economies of scale through consolidation.
- Catering to demand for green, energy efficient ships and greater safety & security features.
- Enlarging export markets.
- Creating high income, value adding activities in the industry i.e. in design, MRO of high value components (i.e. propulsion & navigation systems, OEM, ODM and conversion (i.e. FPSO, FSO, FSU, MODU, MOPU).
Outlook

• Demand for vessels, marine equipment and offshore structures set to remain soft amid slow global economic recovery, overcapacity, low charter rates and low oil prices.
• Malaysia will continue to depend on foreign made vessels/offshore structures and shipping services in the foreseeable future.
• Yards focusing on ship repair will feel less pinch on those focusing on newbuilding.
• Yards with high efficiency and can deliver cost competitive, quality vessels on time, active in export markets, JV arrangements with other yards and with niche in building / repairing / conversion of vessels will do well.
• Consolidation will happen if bad situation prolongs.

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