

# Singapore's offshore marine industry faces struggle

Singapore's government has stepped in to offer financial aid to the offshore marine industry, in a move on which opinions have been mixed, writes Sam Imphet

## INVESTMENT

### WHAT:

Singapore's government has stepped in to offer financial aid to the city-state's marine industry.

### WHY:

The crisis caused by the oil price collapse is described as the worst to have hit Singapore's marine industry since 1984.

### WHAT NEXT:

A shake-up of the major players in the industry has not been ruled out.

SINGAPORE'S offshore marine industry is facing a hard struggle to survive the prolonged upstream slowdown caused by low oil prices, even though local firms plagued by debt and falling profits will now receive financial help from the government.

The city-state's administration was forced to intervene after seeing the rival marine industries of China, South Korea and Japan receive state aid. Singapore's marine industry is important in terms of both employment and international prestige, though some industry participants do not agree with state aid.

This year has been a disaster for Singapore's normally buoyant marine yards, which are capable of building anything from platform supply vessels to floating production, storage and off-loading units (FPSOs).

Some firms, such as Swissco Holdings and Swiber, have had to resort to debt restructuring processes, while the giants of the sector, Sembcorp Marine and Keppel, have reported plummeting profit margins.

Thousands of jobs have been cut. Keppel said it had fired 8,000 workers over the January-September period, though some of these were at yards it owns abroad. Sembcorp has also shed thousands of jobs.

Keppel's earnings fell almost 43% in the first three quarters of this year. Sembcorp suffered a 31.5% full-year profit decline in 2015 and for the January-September period it saw a 49.3% profit drop.

As a result, billions of dollars in share market value have been lost in what Bloomberg has described as the worst crisis to have afflicted Singapore's marine industry since 1984.

### State aid

At the end of November the Singapore government stepped in with a package of financial aid that reports said could amount to a total of US\$1.1 billion during 2017.

The city-state's Today newspaper quoted the Singapore Business Federation's CEO, Ho Meng Kit, as saying it was "uncommon" for the government to come to the rescue of a specific industry.

"That it is doing so now for the marine and



offshore engineering sector reflects the gravity of the situation and the importance of this sector to Singapore," he said, adding that although the aid package would provide some welcome relief for struggling yards, "they are not the silver bullets that will solve the industry's woes".

Indeed, some believe state aid intervention in Singapore is a mistake.

"The move by many Asian governments, including in China, South Korea and Taiwan, stepping in to support shipping lines and shipyards in recent months has proved controversial, with many suggesting the state interventions will only serve to lengthen the shipping and offshore downturn," marine news website Splash said.

A survey of 600 participants made by Maritime CEO magazine found that 76% were against government aid, Splash added.

On the other hand, all of Singapore's Asian rivals in the sector are now receiving some form of financial assistance from their respective governments.

The South Korean government announced at end of November that in addition to billions of dollars in financial support for the country's industry, its various ministries would order 63 vessels between now and 2018, for instance.

The marine industry is a major part of Singapore's economy. In 2011, for example, it contributed 1.8% of GDP, whereas in the January-August period of 2016 it had slumped to being one of the country's worst performers, the





►► Diplomat Asian news magazine reported.

“This is a very important sector to the [Singapore] government and they have just unveiled some measures for this sector a few days ago such as a new bridging loan scheme to help companies tide over this period of prolonged slowdown,” Singapore business consultancy Consul’s CEO, Lawrence Chong, told *NewsBase*.

“The view of the government is the sector must take on the painful steps of restructuring and redesign the business models towards innovation to be ready for the future. My view is the government can assist but the business owners will need to adopt an open mindset to change and take relevant risks to reinvent themselves,” he added.

“Going forward, automation, innovation and sustainability must guide the development of this sector to withstand further shocks in the near future,” Chong said.

#### Planning ahead

In fact, action is already being taken to gear up the industry to a new, more high-technology era.

Singapore’s dominance as an offshore upstream centre of excellence has been attributed to its ability to adapt and predict future trends, the Diplomat said. To that end, the government has contributed S\$107 million (US\$75 million) towards the development of an industry research centre involving government agencies and the National University of Singapore.

The centre is due to be completed in 2019 and will include a deepwater ocean basin unit able to simulate harsh environments at depths of up to 3,000 metres to develop improvements in services to the offshore market when the upstream

business environment improves.

The two majors are already seeking new directions. In August, Sembcorp paid US\$20 million to buy the Norway ship design house LMG Marine. Keppel has formed a venture with Royal Dutch Shell to provide LNG fuel bunkering services for the next generation of vessels. It is also exploring other LNG-related business, the *Nikkei Asian Review* reported.

#### What next?

Sembcorp and Keppel look likely to survive in some form or other at least. The government has a vested interest, as it has substantial stakes in both via the state sovereign fund Temasek Holdings, which owns 61% of Sembcorp and 20.4% of Keppel.

All the same, some believe the restructuring needed by the city-state’s offshore industry might be severe enough to cause a big shake-up involving the two majors.

“A merger cannot be ruled out between Keppel and Sembcorp,” Asia Shipping Media’s editorial director, Sam Chambers, told *NewsBase*. “Singapore price-wise, a little bit like Norway, was living in a different world when the slump hit and few places have been hit harder as a result. I do expect to hear of more casualties soon,” he said.

Asia Shipping Media publishes the *Splash* website.

Singapore’s offshore marine services industry, facing its worse crisis in over 30 years, has clearly not been able to avoid the upheaval and losses that have damaged rivals elsewhere in Asia. However, it is likely to ride out the slump better than most other countries. ♦

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