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Propelling the OSV sector ahead

Nazery Khalid lauds the launching of the Malaysian OSV Owners' Association and calls for more support to be given to promote the OSV sector's growth

The launching of the Malaysian Offshore Support Vessels Owners Association (OSV Malaysia) in February 2012 brings to attention the issues and challenges faced by the local offshore support vessels (OSV) sector.

The contribution and importance of this sector in facilitating the offshore oil and gas industry cannot be overemphasized. These vessels enable a host of activities such as prospecting, exploring, commercializing, producing, storing, offloading and transporting of oil and gas and construction and decommissioning of offshore structures to be carried out.

There is a host of vessels under the wide umbrella of the OSV family. These include the standard OSVs (used to support various offshore activities), anchor handling tugboats (used to

tow platforms and rigs to and from offshore project sites), platform supply vessels (used to carry supplies for crew and materials such as mud for shore platforms), seismic vessels (used for exploration), pipe/cable laying vessels, accommodation barges, FPSOs (floating, production, storage and offloading vessels), FSOs ((floating, storage and offloading vessels) and FLNGs (floating Liquefied Natural Gas vessels).

Without these ‘workhorses on water’, the exploration and production (E&P) of offshore oil and gas, two crucial export commodities for Malaysia, would come to a standstill.

As Petronas, Malaysia’s oil company, steps up activities in deepwater and ultra-deepwater sites, and increasingly turns its attention to marginal fields, to meet growing global demand for hydrocarbon energy, it will depend greatly on these vessels.

Local OSV players have prospered from the boom in the local oil and gas industry. The big names among them are listed on Bursa Malaysia and provide their services in international projects involving some of the world’s biggest oil majors.

However, there are grouses among local OSV owners that they are not getting as much business as they should.

Oil majors choose which OSV services providers to give contracts to based on a number of factors including track record, quality of vessels and services, cost competitiveness.

Malaysian OSV owners argue they can provide services comparable to their foreign counterparts hence feel they deserve a greater slice of business from offshore projects in local waters.

New kid on the block

Being a new kid on the block, OSV Malaysia is not expected to correct all that ails the local OSV sector overnight. However, its establishment is a very encouraging development in the sense that there is now a formal vehicle for local OSV owners to highlight issues concerning their sector in a unified voice.

At its launching, OSV Malaysia counted 17 companies with a combined fleet strength of 198 vessels worth RM10 billion. According to the association, its members generated revenue of RM15 (period unspecified) and provide employment to 12,000 people nationwide.

These are significant figures, especially when one considers the fact that many local shipping companies are operating in the red, and a few have closed shop altogether, amid sharply plunging demand for shipping services and falling freight rates due to the global recession.

OSV Malaysia boasts Malaysia's biggest names in the OSV sector including Bumi Armada, Scomi, Tanjong Offshore, Petra Perdana and Alam Maritime. As measure of the size of the business and the prospect of the OSV sector, Bumi Armada made news for being the largest ever Initial Public Offering (IPO) on Bursa Malaysia at the time of its listing in July 2011.

Several OSV Malaysia members are also members of Malaysia Shipowners Association (MASA) and it is understood that they do not wish to relinquish their MASA membership. It would appear that the establishment of the association seems to suggest that OSV owners feel that they need a more specific grouping to highlight issues concerning their business and to safeguard their interests.

Giving 'Made in Malaysia' a chance

The OSV sector has been a purple lining in the otherwise gloomy performance in the cargo-carrying segment of the shipping industry. The demand for OSVs is set to remain robust, in line with the hive of activities in the local offshore oil and gas industry.

Despite the importance of the OSV sector to the Malaysian economy, it does not enjoy the same 'treatment' accorded to merchant going vessels. For starters, OSVs are not categorized as 'Malaysian vessels' as defined in the Merchant Shipping Ordinance 1952, the legislation that governs merchant shipping activities in Malaysia. This is despite the fact that OSVs are of increasing size and capacity and are deployed in waters in distant offshore locations.

The non-inclusion of OSVs in MSO 1952 means companies owning Malaysian-registered OSVs do not enjoy tax exemption on revenues earned from those vessels. In addition, seafarers working onboard OSVs are not entitled for tax exemption on their salaries. Such exemptions are provided under Section 54A of the Income Tax Act 1967 to Malaysian vessels.

Year after year, OSV owners have been lobbying the Malaysian government to grant the same kind of perks given to cargo-carrying, ocean-going vessels. However, their request has not met with success.

They will bank on OSV Malaysia to act as a platform for them to lobby for OSVs to enjoy the same perks as ocean-going merchant vessels.

A main grouse of local OSV players is that the conditions demanded by Petronas for local OSV owners to provide services to the national oil company are too stringent. They pointed out that Petronas prefers awarding contracts to foreign OSV companies based on their ability to provide services at 'more competitive' rates.

There is no questioning the commitment of Petronas, Malaysia's only Fortune 500 company, to maintain the highest standards in its dealings with vendors and in procuring services from them.

However, the call for local OSV owners for Petronas to give them more opportunities to prove their worth should be looked into.

Not lacking in quality vessels and services, the local owners are confident they can undertake the jobs that Petronas regularly dishes out to foreign OSV owners. Local OSV owners maintain that their rates are less competitive compared to foreign players due to a number of factors beyond their control.

One factor is the tax regime in local OSV owners operate, which they claim to be less favorable compared to Singapore where tax exemption is given to OSV owners on revenues earned from their vessels and for the importation of parts for their vessels. This, as pointed out by the President of MOOA in his speech during its launching, enables their Singaporean competitors to quote lower rates for their vessels' services compared to Malaysian OSV owners.

Another bone of contention among local OSV owners is the lack of support by local banks towards them. The former point out that the latter's requirement for collateral and 'credit comfort' is too rigorous and this makes it difficult for fleet expansion. For OSV companies without track record, local banks require long term contracts which are elusive as contracts awarded by oil majors tend to be short term in duration. Even for those with track records, long-term and financing is hard to come by. Local OSV owners also lament the mismatch between the high cost of building and buying OSVs and the quantum, cost and tenure of financing offered by local banks.

This situation has partly driven local OSV owners to seek financing outside of Malaysia, incurring their cost of purchasing vessels and causing foreign exchange outflow to the country. The higher cost of financing they have to bear by borrowing from foreign banks is inevitably reflected in the rates they charge for their vessels at rates deemed 'not competitive' by Petronas compared to those quoted by foreign OSV owners.

Championing the cause

With the establishment of OSV Malaysia, it is hoped that the voice of the local players in the crucial OSV sector will be more audible. Local OSV owners will look at the association to champion their cause and safeguard their interests.

The irony is not lost on local OSV owners. While the Malaysian offshore oil and gas industry is going through a purple patch, there is a feel among them that they are missing out on many local jobs despite being confident of providing services which are as good as their more illustrious foreign rivals.

The situation is all the more glaring considering some of Malaysia's biggest names in the OSV sector are providing services in offshore sites around the world. They rightfully feel that they

deserve to be given more opportunity on home turf to provide the kind of services which have won them rave reviews from international oil majors.

The oil and gas sector is included as a National Key Economic Area (NKEA) that can generate high-income activities to help realize the goal of the National Economic Model for Malaysia to become a fully developed economy by 2020. Given its status, it would be jarring that the OSV sector which is crucial to the industry is not given the attention and weightage it deserves.

It is hoped that with the launching of OSV Malaysia, the local OSV owners will speak in greater unison and that their voice will fall on the attentive ears of relevant parties. It is high time that the contribution of these committed vessel owners is recognized and more support is given to them to grow their business. It would be a shame for Malaysia, which is so blessed with offshore hydrocarbon riches, to miss out on the golden opportunity to nurture local companies in the industry to grow and move up the value chain amid the boom time in the local offshore oil and gas industry.