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SINGAPOREAN SHIPBUILDING INDUSTRY – COMPETITIVENESS WITH SUSTAINABILITY

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Introduction

Good morning everybody. It is a great pleasure for me to speak in your lovely city of Rio de Janeiro. When my friends and colleagues, Godofredo and Camila, invited me to their city, I jumped at the chance. As a Malaysian lawyer working in Singapore, the weather where I come from is not so different, the sea, sun and sand are the same and the coconuts are enjoyed by all. But where the city of Singapore differs from Rio de Janeiro (apart from the beachwear and power plugs) is the scale of the setting: whilst Singapore nestles amongst the oil & gas industries of South East Asia, being Indonesia, Malaysia, Vietnam and within striking distance of Australia, there is no doubt that, even combined, they do not compare to the needs of the oil & gas industry of Brazil.

Hence Singapore Shipbuilding seeks to contribute to the Brazilian oil & gas industry, as do all service providers throughout the world. Singapore Shipbuilding though has had exceptional success in providing its services worldwide.

Singaporean Shipbuilding Success

For instance, just recently on 29 August 2012, it was announced that, Sembcorp Marine's subsidiary Jurong Do Brasil secured a contract worth US\$674 Million for Modules Construction and Integration of FPSOs P-68 and P-71.

On 8 August 2012, it was announced that Sembcorp Marine secured US\$4.032 Billion worth of Drillship Contracts from Sete Brasil

Jurong Shipyard, as you may know, is a wholly-owned subsidiary of Sembcorp Marine, and a leading shipyard offering integrated services and customized solutions in ship repair, shipbuilding, ship conversion, rig building and offshore engineering to a world-wide clientele. Apart from its proven track record in the building and servicing of jack-up and semi-submersible rigs, Jurong Shipyard is also a global leader in the EPC conversion of tankers to floating production storage and offloading units (FPSOs), floating storage and offloading vessels (FSOs) and floating production units (FPUs).

Another SembCorp Marine subsidiary, Sembawang Shipyard, in turn specializes in FSO / FPSO offshore modification, upgrading and repair work & LNG carriers' life extension work. On 17 May 2012, it announced it had secured 3 major contracts for USD\$100 million for FSO repair & upgrading and LNG carriers' life extension for the Angolan and Australian oil & gas industries.

Keppel Group on the other hand boasts one of the world's largest offshore and marine groups with a global network of 20 yards and offices. On 10 Aug 2012, Keppel FELS Brasil announced it had obtained USD\$950 million contracts from Petrobras. On 7 Aug 2012, Keppel announced it had signed contracts for 5 semisubmersible (semi) drilling rigs with Sete Brasil for USD4.1 billion.

There are a host of other smaller shipyards in Singapore. They include:

- ASL Marine Holdings Ltd
- Jaya S.B. & Eng. (Singapore)
- Singapore Technologies Marine Ltd (ST Marine)
- PPL Shipyard
- Kreuz Shipbuilding & Engineering Pte Ltd
- Kwong Soon Engineering Co. (Pte) Ltd
- Pandan Shipyard Pte Ltd
- Drydocks World-S.E.Asia of Dubai, now in joint venture with the Kuok Group's Pacific Carriers
- Damen Shipyard of the Netherlands

In fact, the number of shipyards in Singapore is increasing. IHC Offshore & Marine of the Netherlands has just opened an office there this year. The Singapore base will be the corporate headquarters for IHC Offshore & Marine's South East Asian businesses which it seeks to further expand in the region. It is to

complement the building capacity of its yards in The Netherlands. IHC Merwede's President said, that by opening the Singapore office, it aims to increase their commitment to Asia. IHC acknowledged Singapore as a major international maritime oil and gas hub which has the necessary infrastructure. Plans are already in place to expand the company in the region.

Given these achievements, it is easy to forget that Singapore is only an island country. It covers an area of merely 704 km². It has a population of just 5 million. Yet despite its lack of resources, Singapore has risen to become the world's fourth leading financial centre. Its port is one of the five busiest ports in the world. It has the third highest per capita income in the world. It possesses the world's tenth largest foreign reserves. The World Bank has named Singapore as the easiest place in the world to do business.

Although the Singaporean Shipbuilding industry does not deliver 2 ships a week as does Samsung of Korea, let alone compare with the entire output of the China Shipbuilding industry, it is undeniable that its achievements are significant.

The Secret of Success of Singaporean Shipbuilding

The topic of my paper this morning therefore is: what is the secret of success of Singaporean Shipbuilding? As always, success is built on a combination factors. These factors, for Singaporean Shipbuilding, I would say, in a nutshell, are:

- Location – being its place amongst the oil & gas industries of Indonesia, Malaysia, Vietnam, and also Australia;
- Labour – being its access to plentiful and skilled expertise from South East Asia, China and indeed the rest of the world; there have for instance never been more lawyers in Singapore than ever before;
- Support – being the Singapore Government's incentives and relative liberal measures to assist the country's Shipbuilding industry, and
- The Right Price – which is derived from all the above factors.

Location

Singapore sits in between the oil & gas industries of South East Asia of Malaysia, Indonesia, Vietnam, even India. Soon Myanmar will also be a world gas producer. It has close access to more cost-effective locations in Malaysia and Indonesia and good access to even more cost-effective shipbuilding locations in China. Singapore is a major international transport hub in Asia, positioned on many sea trade routes. The Port of Singapore, is one the world's busiest ports. Further, local players in the South East Asian and Asian neighbours suffer from a lack of comparative experience and expertise.

Labour & Support

In providing expertise and skilled cost-effective labour, Singapore excels. Its liberal labour policies ensure a steady supply of foreign workers from Malaysia, the Phillipines, India, China and Bangladesh. Even professionals from Europe, the US, the UK, Australia, Norway, you name it, Singapore has it.

This is because only one in five workers must be Singaporean. This is the only local content requirement in Singaporean Shipbuilding. Roughly 44 percent of the Singaporean workforce is made up of non-Singaporeans. It does not have a minimum wage policy. It believes that this would lower its competitiveness. Though this will change soon, it will only do so in stages. As a result, Singapore attracts a lot of foreign direct investment because of its location, corruption-free environment, skilled workforce, low tax rates and advanced infrastructure. There are more than 7,000 multinational corporations from the United States, Japan, and Europe in Singapore. There are also 1,500 companies from China and 1,500 from India. As a result, foreign firms are found in almost all sectors of the economy.

Even the legal profession has opened up almost completely. In 2011, the Legal Profession Act of Singapore was modified¹ to enable foreign law firms to obtain various types of foreign law firm licences from the Attorney General's Chambers of Singapore, as has mine, and foreign lawyers may practice in Singapore law firms, with a certificate. There are now more lawyers in Singapore than there have ever been before.²

Today, about 40% of Singapore's residents are foreigners, one of the highest percentages in the world. The government is considering capping these workers, although it is recognised that they are crucial to the country's economy, as foreign workers make up 80% of the construction industry and up to 50% in the service industry.

Courts & Arbitration

Another important support to the Singaporean Shipbuilding industry is the dispute resolution system. Singapore courts have always been renowned for expertise in shipping. In fact, its newly-announced Chief Justice, Sundaresh Menon, who is the current Attorney-General of Singapore, is former managing partner of Rajah & Tan, one of the top shipping law firms in Singapore. He is himself an international arbitration lawyer, and one of the most active members of the Singapore International Arbitration Centre (SIAC). The attorney-general to take his place, will be Steven Chong, a shipping litigation lawyer himself, and also former managing partner of Rajah & Tan. SIAC is increasingly accepted internationally in contractual arbitration clauses and disputes as an arbitration institution. In addition, the Rules of the Singapore Chamber of Maritime Arbitration ("SCMA") which was reconstituted in May 2009, further bolsters Singapore as a maritime arbitration option. In recognition of this, Singapore hosted this year the International Council for Commercial Arbitration 2012 Congress (ICCA). The Singapore Parliament made key amendments to its International Arbitration Act this year to ensure that its international arbitration industry continues to thrive.

Singapore Ship Sale Form

A further effort of the government which supports Singaporean Shipbuilding was the introduction in 2011 of the Singapore Ship Sale form. It was the product of the Singapore Maritime Foundation, made up of English and Singapore shipping lawyers, local university academics and shipbrokers. The Singapore Ship Sale Form seeks to update the Norwegian Saleform, and above all aims to promote Singapore arbitration in ship sales.

Singapore shipping tax

As for the tax regime, Singaporean shipping tax is very agreeable. The Singapore Budget 2011 & 2012 continues the nation's strong efforts to foster a favourable environment for shipping businesses. Corporate tax was retained at 17% and other benefits were announced then.

In addition, there are specific tax benefits that apply to the shipping industry. The Maritime Sector Incentive ("MSI") was introduced with effect from 1 June 2011 to not only streamline but also enhance existing maritime tax incentives. 3 categories of tax exemptions on qualifying income or concessionary tax rates, were established. A new benefit provided by the MSI includes the automatic withholding tax exemption for interest payments on foreign loans to finance the construction or purchase of ships. Also, there is a tax exemption on income derived by qualifying entry players from owning or operating Singapore-flagged or foreign-flagged ships.

¹ Legal Profession (Modified Application of Act for International Services) Rules 2011 came into operation on 3rd May 2011 and modified Section 73 of Act to create new licences:

- (a) a Joint Law Venture or its constituent foreign law practice, a Qualifying Foreign Law Practice or a licensed foreign law practice, in respect of its practice of Singapore law;
- (b) a solicitor registered under section 130N of the Act, in respect of his practice of Singapore law in a Joint Law Venture or its constituent foreign law practice, a Qualifying Foreign Law Practice or a licensed foreign law practice; or
- (c) a foreign lawyer registered under section 130I of the Act, in respect of his practice of Singapore law.

² Legal Profession (Foreign Practitioner Examinations) Rules 2011 enables foreign lawyers to become Singapore practitioners.

A new Goods & Services Tax (GST) scheme for the shipping industry was introduced as of 1 October 2011 which provides for “approved marine customers” without having to maintain the requisite documentary proof. Also from 1 October 2011, zero-rating of repair and maintenance services were extended to repair and maintenance services performed on ship parts or components delivered to:

- (a) Shipyards in Singapore; or
- (b) Approved marine customers; and
- (c) Where a supplier provides a reconditioned ship part or component in exchange for the faulty part to his customer (like in a one-to-one exchange), such provision will be treated as a single supply of repair services.

Also from 1 October 2011, to ease compliance for ships temporarily in Singapore and intending to leave as soon as possible, for instance in a delivery or a redelivery at a shipyard, shipowners are able to enjoy:

- 1. The removal of documentary requirements for GST import relief for a qualifying ship engaged in pleasure, recreation, sports or other similar events; and
- 2. The granting of GST import relief (with waiver of documentary requirements) on goods shipped and remaining on board a qualifying ship.³

In the Budget 2012, an exemption was granted to qualifying ship operators and ship lessors under the Maritime Sector Incentive (MSI) awards on gains or revenue derived from the disposal of vessels including newbuilds. This was aimed to bring Singapore’s tax regime on par with other maritime nations and provide certainty to the maritime sector.⁴

In my recent experience where Keppel Shipyard redelivered a modified FPSO Berantai for the Malaysian oil & gas industry, there was no export tax, no necessity for a certificate of origin from the Singapore Chamber of Commerce, and no tax issues. The Yard need only provide for class approvals relating to the portion of work done, and the protocol of re-delivery. Further, there is no stamp duty in Singapore on the sale of vessels.

The Right Price

The ultimate ingredient however in the success of any shipyard I am told is concluding the shipbuilding contract at The Right Price. Some shipyards as you know take orders even before they exist. This is just to fill the order books. Success does not come about with full order books necessarily, but from obtaining The Right Price. The Right Price is derived from all the other factors within which the shipyard operates. Ultimately therefore, the Secret of Success of Singaporean Shipbuilding depends on The Right Price.

³ Further details of the MSI Scheme can be found in the Shipping Circular No. 16 of 2011 issued by MPA on 1 August 2011. An electronic copy of the Shipping Circular can be found on the MPA website at: http://www.mpa.gov.sg/sites/circulars_and_notices/pdfs/shipping_circulars/sc_no_16_of_2011.pdf

Any queries relating to taxation matters should be directed to the MPA’s International Maritime Centre (IMC) Division’s contact via email: imc_mpa@mpa.gov.sg or Tel: +65 6375 1927/1766.

Further matters relating to the registration of ships should be directed to Mr. Wong Kai Cheong, Assistant Director (Registry and Manning), MPA, via Tel: (65) 6375 6236, Fax: (65) 6375 6231, or to the Singapore Registry of Ships dedicated contact via email: marine@mpa.gov.sg and Tel: (65) 6375 1932.

⁴ Section 13A of the Income Tax Act

Conclusion

In conclusion, the Singapore Shipbuilding industry is expanding. It is importing expertise by attracting world-renowned shipyards from elsewhere in the world to establish themselves in Singapore. It is also exporting its expertise elsewhere in the world, for instance here in Brazil. Hopefully as a result, I will get to visit your beautiful, vibrant city more in future.

Kuala Lumpur & Singapore, September 2012
