Shipyards are coming ashore

Interview with Jarosław Flont, Chairman of the Board at Shiprepair Yard 'Remontowa' SA.

- Gdańsk Shiprepair Yard 'Remontowa' Group is the biggest entity in the whole Polish shipbuilding industry. Which companies does the Group gather?

- There are 29 companies in the Group. The largest of them, next to 'Remontowa' Shiprepair Yard, are Northern Shipayard and Famos. It is also these companies that generate the greatest revenues. A few companies within the Group are middle-sized. Most of them are connected with shipbuilding. However, these days, they are also active on land. There are also numerous small enterprises formed as a result of restructuring, separating some of our production capacity, or constituting separate entities. There is also the NED Company (Naval Engineering and Design Ltd) – our design office.

- What is the share of the particular segments in the revenues of the Group: ship repairs, newbuildings, ship conversions, production of ship equipment and non-marine activity?

- Building new vessels is the basic source of the Group's revenues, accounting for about 50% of 'Remontowa' Shiprepair Yard's revenue. This is due to the fact that we build technologically advanced vessels, in which the value of equipment is significant. Ship repairs are less profitable, generating about 30% of the revenues. The remaining part is covered by conversions and other activity.

Northern Shipyard also benefits most from newbuildings. However, at Famos, interior furnishing and furniture manufacturer, deliveries for shipyards constitute only about 20% of the revenues. Our companies operate very actively on land. Apart from 'Remontowa' Shiprepair Yard and Northern Shipyard, no other company in the Group relies on marine production in more than 40%. It means that they are market-oriented and evolve together with its changing demands. After the slump in ship production in Poland, these firms would not be able to survive.

- Was this trend to keep abreast of the market needs part of a conscious policy of the Group?

- Indeed, it was part of the Group's strategy. Chairman of the Group **Piotr Soyka** defined development paths for the companies already at the time of shipbuilding prosperity, when ship owners had to wait about three years for a ship to be built. It was back then already when our companies 'came ashore' in search of orders and sources of income. This attitude paid off when ship building collapsed, as Famos, for instance, was also involved in providing furnishings for ships built in shipyards in Szczecin or Gdynia. It turned out that, when these markets failed, such companies are still able to increase their revenues – they changed their profile at the right time.

- Ship production is still a vital part of the Group's activity. How does the shipping crisis affect the condition of the Group?

- We should differentiate between the condition of ship repairs and conversions – which is what Gdańsk Shiprepair Yard 'Remontowa' mainly focuses on – and the condition of the newbuildings sector. Already in the period preceding the boom that occurred four years ago, our Yard had treated building new vessels as an activity balancing the repairs. We operated within the market of niche vessels made to special orders, never blindly following a general demand for particular types of ships, which occurs at times only to vanish after a while, leaving shipyards in trouble. We operated in the market, which was as if less dependent of economic fluctuations.

We used to build seven to eight ships of different types a year, mainly car-passenger ferries and *offshore* vessels. It appears that now that the slump is a fact, we can still return to this number of contracted ships within this niche market. This should satisfy the Group's needs with respect to marine production. On the other hand, the companies whose ties with this industry are weaker need to search for a market elsewhere. As a Group, we are not oriented towards the production of a large number of new vessels, which would push us into trouble whenever fewer vessels were ordered. Instead, the diversification of our activity made it possible for the Group to function at a satisfactory level of results, just by building seven or eight vessels a year.

- Which of your vessels are you most proud of?

- We are most proud of the completed series of 23 AHTSs (*Anchor Handling Tug/Supply vessel)*. At the moment, we are planning to market a similar series – of PSVs (*Platform Supply Vessel*). With much additional functionality, including oil spills removal, they have been designed to meet the demands of today's offshore market.

Among our vital achievements, there is also the construction of a ship for carrying three types of gases: LNG, LPG and LEG (liquified methane, petroleum gases and ethylene – ed.). This is a very modern ship, granted a Greenship Technology Award 2010 as a very environmentally-friendly vessel. Apart from transporting gases, it also has marine power plant working on the remains of cargo, preventing the latter from being emitted to the air. Lately, we have delivered three LNG-fueled ferries to Norwegians, with the fourth one being completed. Also three ships from the so-called 'royal series', delivered to the Trinity House shipowner from the UK, were among our most spectacular ones. These specialist hydrographic-research vessels for servicing fairways were very advanced in terms of technologies applied.

- Who are your clients? Where do you find them?

- We generally work for these ship owners who seek reasonable compromise between the price and the quality of service, as we are not a company that competes by means of the price only. Of course, we must offer acceptable calculations to shipowners. But we also ensure the quality and certainty which are still vital in shipping. After the initial fascination with Asia, the situation seems to be changing slightly; the quality of work, engineering solutions and the quality of components offered by a given shipyard prove to be the factors of utmost importance for the long-term operation of a ship. We try to get involved with the customers who have been connected with ships for years. They are not the customers who have become shipowners only by chance.

- Like those groups of investors from all walks of life, who order and buy vessels only to rent them out or sell at a profit?

- Exactly. Our major customers, including those from the *offshore* market, are among the biggest and the most important companies, for which quality and safety requirements are crucial. There are also shipowners among our customers who, replacing their fleet once in a great while, want to get a product that will live up to their expectations for many years. Such customers will never order a ship from a series but rather become involved in the process of building the ship and participate in it starting from the designing phase. This is the group of customers we are trying to reach.

- Are the vessels you build the outcome of such cooperation or does your design office prepare their own designs, which are then offered to prospective customers?

- We do not make any kind of ready-made design, which we then struggle to sell. We rather listen closely to what the customers' needs are, and often build first rough ideas on the basis of the talks our sales specialists have with them. Only then do we prepare an offer design, in which we try to meet all such suggestions. In the next step, our design office prepares working classification documentation, which serves as a basis for the building process.

It is often the case that the ship owner already has some draft concept created by some design office, and shows to different shipyards, which, on the basis of this draft, prepare and suggest their own ideas of how to improve the ship technically or make it cheaper to build.

The offshore market is a bit different it this respect. The customers tend to wait for someone to order a vessel first and then gather opinions about it. If the opinions are positive, the design sells, usually in a slightly modified version. This is how these long series of offshore vessels are made.

- Where do orders come from in terms of geographical location?

- Scandinavia and Western Europe are our major markets.

- And what is the role of the Polish shipping market in the activity of the Group?

- It is very important! Polsteam and other shipowners, such as Euro Africa, POL-Euro or even Żegluga Gdańska, are very significant customers of ours. Our cooperation is flourishing, and the Polish market constitutes an important part of our revenues – especially in respect with ship repairs, but occasionally also with ship conversions.

- It is easy to notice that you also carry out repairs of offshore platforms. Is it another domain you are going to specialize in?

- The Shipyard performed its first repair of a platform, submersible one, around the year 2000. Since then, we have been trying to prepare the Yard to the requirements of offshore companies, especially those concerning work organization, safety and environmental protection. Last year, we carried out the first conversion of a jack-up tower. That means that we have already hosted two types of equipment used in the world oil fields. In the yard which has a number of basins and canals, there are three spots where repairs of such facilities could be made. That is why we are planning to have more towers of this kind temporarily marking the skyline of the Shipyard in the years to come. We are extending our offer, perceiving this domain as one of the potential ways to increase our revenues.

- Contrary to how it may be perceived, this is not a niche market any more. There are many shipyards already specializing in building offshore vessels.

- There are ship owners who are 'in love' with Norwegian designs, and build in Norway only. Others are more open and search for the designs all around the world. There are also those who are interested in nothing but low prices and so order the vessels from China or India. However, I believe that what happened in the Gulf of Mexico will have impact on the requirements set out for the offshore fleet. Currently, over half of the ships have been in operation for over 20 years. Inefficient and lacking in certain functions, they are bound to be gradually replaced with new designs. As I have already mentioned, shipowners are currently more willing to go for the European rather than the Asian quality. It is therefore likely that such vessels will be built in Europe, also outside Norway and Spain.

- Polish shiprepair yards are about to face significant ownership changes. (The companies from your Group were first to undergo such changes, which were completed some time ago.) How do you think it will influence Polish shiprepair sector? Are these changes likely to entice any serious foreign competitors likely to the Polish market?

- At a shipyard, apart from what a given shipyard can do, labor costs are a vital component of the ship repair cost sheet. Today, in Europe, almost any shipyard is in a position to offer labor force at a more or less similar level. Polish, Ukrainian, Romanian, Greek and Estonian shipbuilders, among others, work in virtually all the yards in Western Europe: in Denmark, Sweden, Holland, Norway... There are also enough docks in Europe. Why should then any Western investor buy an additional shipyard in Poland to increase their capacity? It is attracting the orders that appears to be the greatest challenge.

Regardless who purchases the shipyards in Poland, they will have to invest resources here. And the market of today is by no means easy. Therefore, it will be hard to sell these yards, especially due to the fact that some of them need subsidizing. So was the case of the Polish shipbuilding yards, whose property is still waiting to be bought. That is why I do not expect any big investors ready to buy the Polish shiprepair yards to materialize soon.

- Thank you.

Maciej Borkowski

Photo: M. Sawińska / Remontowa

Photo: M. Czasnojć

Grounds still attractive, equipment - not any more

PIOTR FRANKOWSKI

Another tender for the grounds of one of big bankrupt Polish shipyards – Stocznia Szczecinska Nowa – ended in failure. Six companies entered nine bids but only three of them made some purchase. The main production property has not been sold yet. At the auction organized at the end of last year, part of the quay and a steering gear for a B-178 container ship were bought by a consortium of individuals and Szczecin Shiprepair Yard Gryfia respectively. The profit was only PLN10.2M (EUR2.5M), whilst the total value of the property priced at PLN119M (about EUR29M). The Industrial Development Agency took over the unfinished B-178[1] container ship.

However, during the second auction, which took place in late July 2010, Gryfia, Gryfia Yard purchased, for PLN1.9M (about EUR460 thou), materials that can be used for building a vessel as well as mooring and technical gear for nearly PLN200 thou (about EUR48 thou). Ship plates for PLN1.63M (about EUR400 thou) were bought by the Lidmann and Megger Company, an entity dealing with the wholesale of metal products. As regards the tender for metallurgic materials made of Duplex, stainless and acid-proof steel and of non-ferrous metals, the winner was P.W. Ferkut, which bought the materials for over PLN1.2M (about EUR300 thou). Altogether, the SSN assets were sold for about PLN5M (about EUR1.2M). The real estate for sale included, among others, the Wulkan and Odra slipways, a paint shop and the division of steel construction prefabrication. The investors showed no interest in these properties.

Contrary to previous claims, the state-owned Industrial Development Agency did not bid in the tender. The Agency was supposed to incorporate the closed Yard into the Special Economic Zone Euro Park Mielec, which itself belongs to the Agency, as the government pledged itself to issuing its immediate assent to extend the zone by adding the Yard to it. The incorporation of the Yard into the zone would act as a magnet for the steel industry companies which are already leasing a few sections of the Yard's grounds, employing most of its former staff. According to unofficial data, the Agency intended to bid but lacked the time to sort

On November 6, 2008, the European Commission decided that the public aid granted to the shipyards in Gdańsk, Gdynia and Szczecin by the Polish government after Poland's accession to the European Union was illegal. The Commission demanded that Poland perform restructuring and privatization of the shipyard so that no further support in the form of state funds is needed. If the government had failed to meet the Commission's requirements, the shipyards would have had to return the funds they had been granted. The amount in question was about PLN8.5B (about EUR2.1B).

Gdańsk Shipyard was taken over by a Ukrainian ISD Polska Company, part of the ISD concern (Industrial Union of Donbass), and in mid-2009 Brussels approved public aid for the Yard amounting to EUR251M and finally accepted the plan of its restructuring. Following a partial employment reduction, the Shipyard in Gdańsk is to produce ships, big steel constructions and towers for wind farms.

As there was no interest in buying the shipyards in Gdynia and Szczecin as whole plants, their property was put out to tender, in compliance with a plan agreed on with the European Commission.

[1] British Royal Institution of Naval Architects (RINA) awarded a vessel from this series, *Fesco Vitim*, built for a Russian shipowner Fesco, with the title of a Significant Ship of 2008. The construction of the container ship is to be completed in Szczecin Shiprepair Yard Gryfia, to be delivered to a Gdynia - based shipowner POL-Euro owned by the Industrial Development Agency.

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out all the internal decisions. Another attempt at selling SSN property will probably be made in September.

Sale of Gdynia Shipyard

A tender for the sale of the unsold elements of Gdynia Shipyard has also been scheduled for September. The elements still to be sold include, among others, a big dry dock worth about PLN100M (about EUR24.23M), a leisure centre in the Kashubian Region, warehouses and administrative back-up facilities and a railway siding. Total value of the elements for sale amounts to about EUR2.02M. (The European Commission allowed this process to continue until the end of first quarter of 2011).

Since December 29, 2009, part of Gdynia Shipyard property has had new owners. Notarial deeds were signed between the receiver in bankruptcy and the companies which won the bid. These were: Energomontaż Północ, Shiprepair Yard Nauta and a private Crist Shipyard.

Energomontaż purchased, among other properties, a smaller dry dock, where it intends to assemble structures for the power engineering sector. In the future, drilling platforms, structures for wind farms and engineering furnaces for petroleum and petrochemical industries would be produced there. So far, however, the dock has been leased out.

Nauta Shiprepair Yard bought the shipyard grounds, where it is planning to move with its activity currently performed closer to Gdynia city centre (see: page IX). Crist Shipyard, on the other hand, bought a hull prefabrication shop, located in the vicinity of the big dry dock, and started producing ships there. Crist has built, for instance, a construction and repair platform *Thor* for a German construction concern Hochtief Construction AG (see: page IV).

Altogether, the profit from the sale of Gdynia Shipyard property amounted to about PLN140M (about EUR34M). Another PLN60M (about EUR15M) was transferred for the completion of ship building. The resources were allocated to partly repay the debt of about PLN1.5B (about EUR360M) left behind by the Shipyard.

However, there is still no company willing to buy the big dry dock priced at PLN100M (EUR24M). And although a bid bond for the purchase of the latter was submitted by Crist Shipyard within the bid at the end of 2009, it failed to ensure sufficient financing for this investment. That is why the dock was leased by competition to Gdańsk Shiprepair Yard Remontowa, which, by the way, had been leasing it since 2008.

The investors who bought the property of Gdynia Shipyard consider establishing a company which would buy systems such as pipelines located within the grounds of the former shipyard. For the time being, however, they refuse to share the details of this undertaking.

In mid-May 2010, Gdynia City Council passed a resolution to create a special economic zone covering the grounds after Gdynia Shipyard, which guarantees companies operating there many concessions in connection with their business activity. The decision made by the Council has yet to be approved by the government. 'Establishing of the zone should act as an incentive for investors and entrepreneurs to concentrate their activity in this very area. The system of tax incentives, connected with the functioning of a special economic zone in many places across Poland, proved to be an successful motivating factor for the companies and a stimulus to their development' – as the justification reads.

Pomeranian Special Economic Zone intends to buy two out of the three unsold production areas – a former heat and power generating plant and office buildings. Also the buyers of post-shipyard grounds (Energomontaż Północ, Crist Shipyard and Shiprepair Yard Nauta) would like to fall under the zone.

Piotr Frankowski

Photo: M. Czasnojć

Plans of Gdańsk Shipyard

Gdańsk Shipyard, currently belonging to a Ukrainian concern ISD Poland, has the order portfolio worth PLN350M (about EUR86M), which is 40% less than in 2009. According to the plans of the Port Authority, the Yard is going to manufacture ship hulls, steel structures and wind turbine towers.

Within a year to come, the Yard is to build, among others, partially equipped hulls for two big passenger car ferries for a Norwegian shipbuilding concern Bergen Group, with the prospects of two further vessels. A building of a partially equipped hull of a PSV (Platform Supply Vessel) for Hellesoy Verft AS from Norway is going to commence. In Gdańsk, the vessel will be fitted with, among other devices, 12 cylindrical tanks and with motors. The Yard is also going to build a stern trawler and two PSV stern blocks for the Norwegian Kleven Verft. In October, a production line for wind turbine towers is to start operating. A new wind tower plant, with the annual capacity of 300 towers, is going to be created in 2011. The Yard also envisages the production of steel structures. Apart from winning a tender for building steel structures for a new terminal currently erected at Gdańsk airport, among other tasks, it has also concluded a contract for 600t of steel structures for a Swedish customer.

In 2009, the European Commission accepted a restructuring plan of Gdańsk Shipyard. According to the decision, the Yard did not have to repay the public aid. It was possible for it to benefit from additional support amounting to PLN150M (about EUR37M) to repay its debts. The Company has also pledged itself to diversify its production and reduce its capacity and employment. ISD Poland is going to invest about PLN300M (about EUR74M) in the Yard in the period 2010-2012.

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