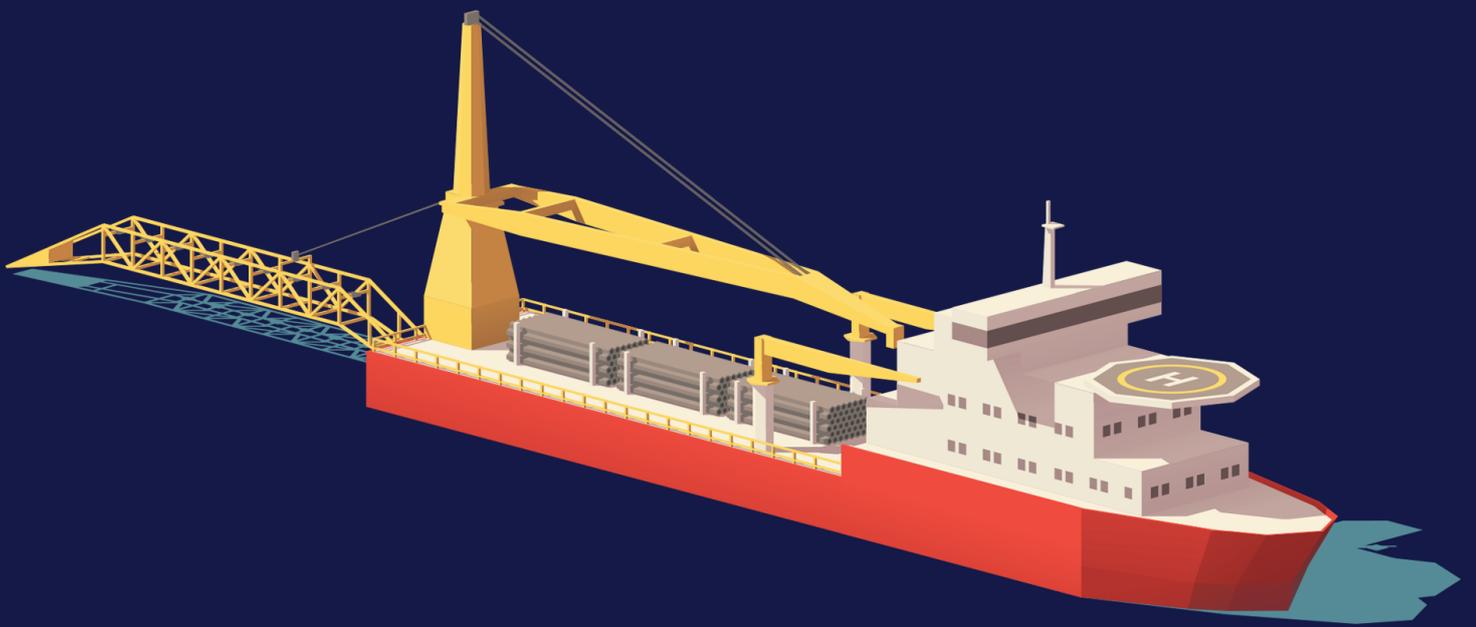


WHY CHINA IS SETTING SAIL FOR SUCCESS IN THE FPSO MARKET

FPSO WORLD CONGRESS 2019



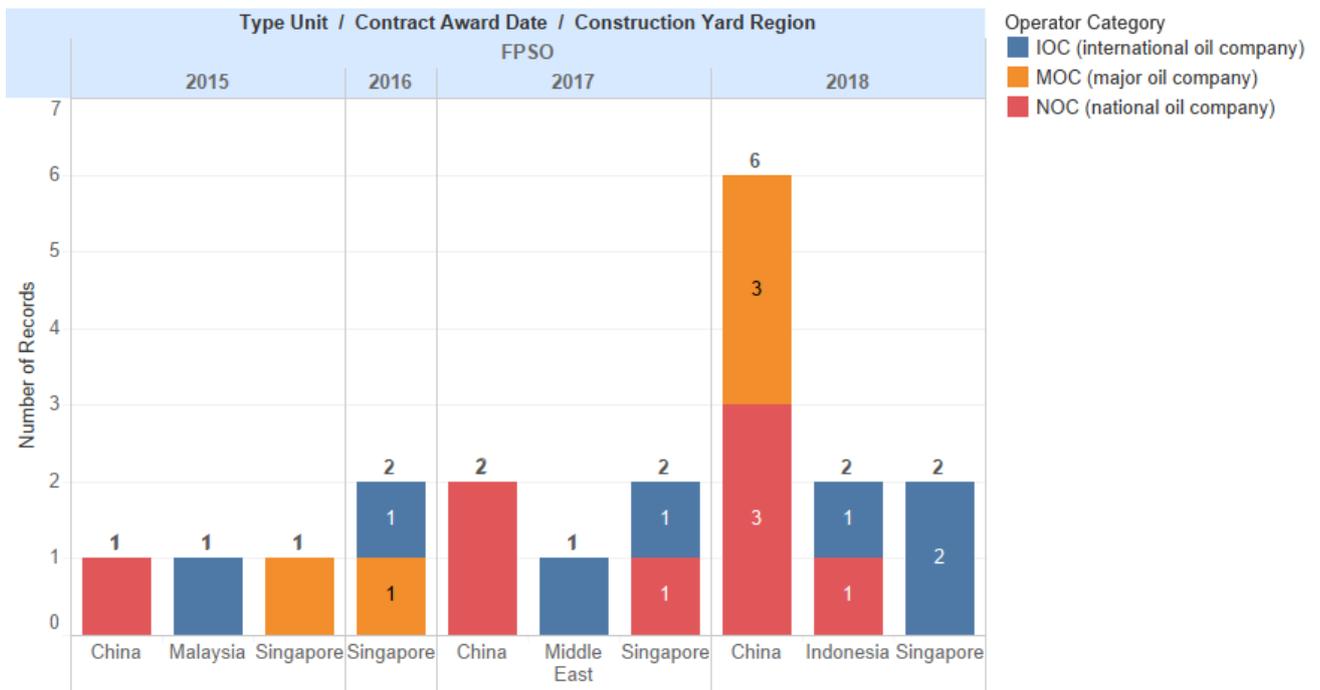
www.fpsoworldcongress.com

China is increasingly becoming a behemoth player in the international FPSO market. Signs point towards it taking precedence in the global market due to its development of expertise and production advancement. It has steadily grown from purely servicing domestic projects towards building for the international market, including the super majors.

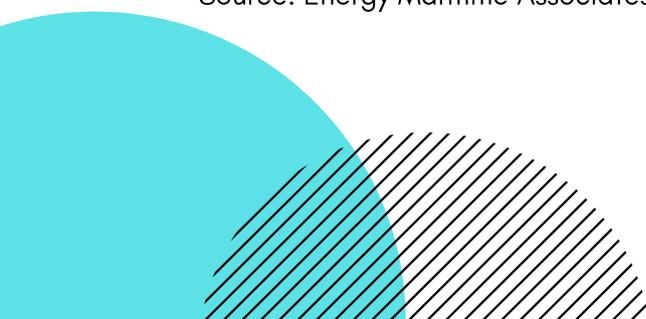
“The landscape has changed rather a lot in China” explained David Boggs, founder and Managing Director of market intelligence firm Energy Maritime Associates when the FPSO China team caught up with him. “Experience for one thing has developed rapidly as a large number of projects have been completed both for domestic and international markets. In addition to that they’ve also brought in more experienced people who have worked on projects around the world.”

Previously projects might have had to rely on talent flying in from overseas but now says Boggs there is a lot more expertise and assistance closer to hand. “There’s much more of a network of subcontractors and suppliers and vendors in-country.” China has continued to do larger and more complex projects which have built up expertise. “At the same time” explains Boggs, “other places like Korea are less competitive and less interested in these complex projects so it’s a huge opportunity for the Chinese shipyards. The challenges now of doing a project in China are not necessarily different from those in Europe, Korea or Singapore.”

Award by Operator Category
(FPSOs)



Source: Energy Maritime Associates



BUILDING EXPERTISE UP

According to Boggs this build up of expertise in the yards has been a gradual process over time. "COSCO has been working with MODEC for many years and continues to do so. They have been working side by side as MODEC completes larger and more complex projects. Similarly CSSC has been working with SBM. They did three large conversion projects together and are now working on a new build design with a different yard being brought in to the collaboration. A lot of what is happening here is working together with companies they've worked with in the past but embarking on larger and more complex projects."

One of the other big changes is the arrival of the super majors conducting work in China albeit not directly with the yards. The prevailing model appears to be the super majors' projects being conducted in China but with an engineering contractor or project manager managing between the yard and the oil company. "One example is Exxon to SBM and then SBM working with the Chinese yards" says Boggs. "There's also another project that Shell are executing. That contract was awarded to Fluor who is then working directly with the Chinese yards. BP is also working with TechnipFMC who are working with COSCO."



MOVING TOWARDS THE INTERNATIONAL MARKET

When FPSO projects first began in China, it was mainly new builds for the Chinese market. Gradually that has shifted. "Domestic FPSOs are still built in China but the yards have taken on an increasing number of international projects" explains Boggs. "First it was mainly COSCO taking on international projects but now some of the state-owned yards are getting involved as well."

Why is China becoming an attractive proposition to the international market? "It's a combination of things. They have the resources, the large shipyards and huge workforce. A lot of it is about having the resources available for these projects. They have the interest and appetite to take on these complex projects. For example most of the shipyards in Japan and Korea would prefer to work on a standardised design but with an FPSO each design is bespoke. You're going to build perhaps one rather than ten in year. The Chinese yards have an interest in creating these types of projects. They also have the financial capacity to take them on."

"It's a combination of experience and the growing capability of the Chinese yards. In addition the Korean yards are stepping away from the FPSO market because of past financial losses and cost overruns thus leaving more space for the Chinese to take over."



NEW BUILDS VS CONVERSIONS

The Chinese shipyard is split into multiple yards; some specialise in new builds and others in conversions. It boils down to what the client wants and what the specifications of the project and the schedule are. "We are seeing a trend towards more new build projects" says Boggs. "Usually there is less overall risk and more repeatability. SBM are currently working on that concept. However there still exist a large number of conversions as well so there's flexibility there."

In regard to international competition, flexibility in the Chinese shipyards is an asset. "The Korean yards are mostly only new builds and Singapore yards have traditionally been conversions. Sembcorp has a new facility for conducting new build projects but it's not to the same size as the Chinese yards."

While the Chinese trend is leaning towards new builds because of less risk and more repeatability, conversions are still in demand. "The advantage of a conversion is speed of execution and there can be cost advantages. It also depends on location. If you're looking at a harsh environment for example the North Sea or Australia then you're most likely looking at a new build. However for West Africa or South East Asia it's perhaps a conversion. Design life is also a factor. If you're looking at twenty years or more it's probably a new build but for a five year shelf life a conversion is more economic."

THE TOP ADVANTAGES TO EXECUTING A PROJECT IN CHINA

What are the top benefits to execute an FPSO project in China? “The availability of resources is one” says Boggs. “The facilities that they have are top-notch in a capacity sense and they have a huge workforce which I mentioned before.”

“There’s also a mentality to take on these projects. Each project is unique and therefore needs a team that is willing to solve the problems that arise and find a creative solution. They need to be able to do this throughout the project and keep on schedule. In China, they understand that mentality.”

FINANCING

Does financing work any differently in the Chinese market? “If you build in China you have access to Chinese export finance but that’s the same if you built in say Korea. There’s a lot of talk about it being a big advantage but ultimately I think it comes down to the bankability of the project.”

SUCCESSFUL PROJECTS

Some of China’s more successful projects in recent years have included COSCO and MODEC’s dozen or so projects for Brazil, “most of these have gone quite well with some even being delivered ahead of schedule.”

Petrobras has commissioned a lot of work in the Chinese yards too due to financial problems in the Brazilian yards. “I would say the Chinese yards have executed these projects well. They have been able to pick up these half-built projects and get them back on track.”

CURRENT OR UPCOMING PROJECTS

Projects that are coming for delivery are the Petrobras units P-68 and P-77. “Those should all be finished this year or next year.”

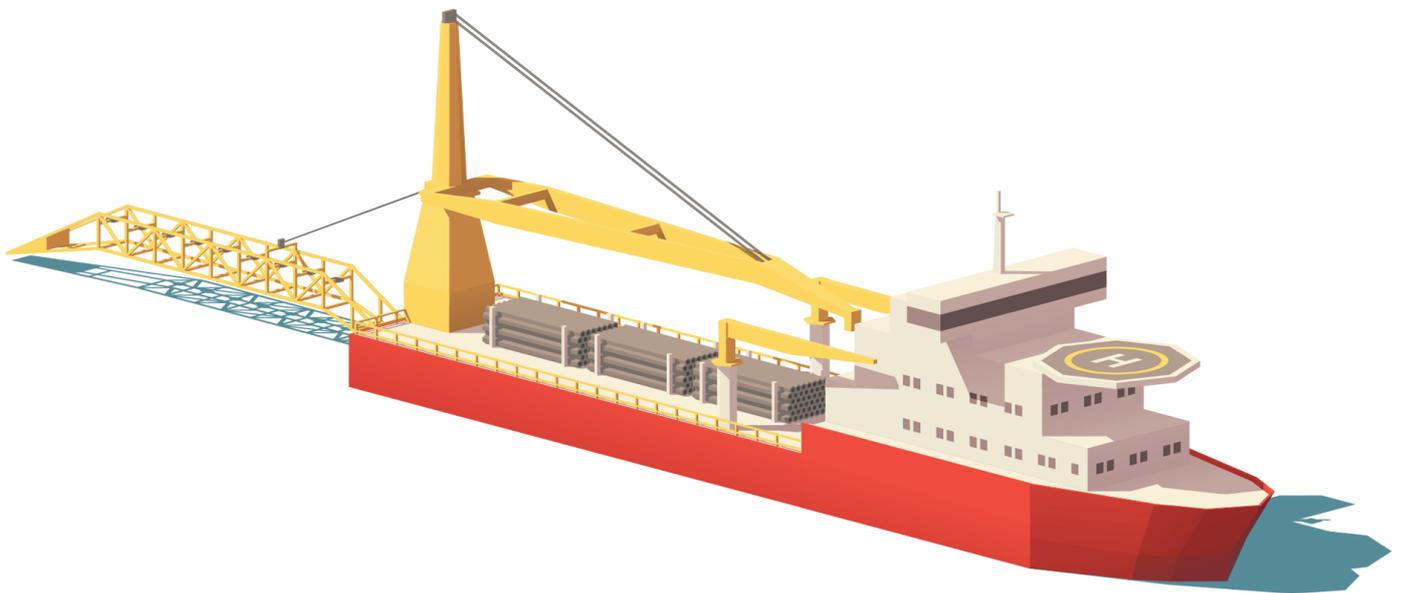
There are also two Modec FPSOs for Petrobras, the Penguin FPSO for Shell in the UK and the Tortue FPSO for BP. “Those won’t be finished this year but they’re in progress now.” Lastly there’s one domestically for China, called FPSO 119. “That one should be finished this year.”

THE FUTURE OF THE CHINA FPSO MARKET

Where is the China FPSO market heading in the next few years? "I think it will continue to grow and expand at the same time as the market gets more experienced. The experienced yards in China will take projects that they can execute at a profit. There's competition in China. They definitely want projects and they want to work, but they still need to make money."

Boggs also believes that the market will continue to compete in both the new build and conversion sectors. "I think the issue is not necessarily so much about whether the yards are competitive or making a large profit. It's more about how to engineer these projects so that they can be done more efficiently overall so there's cost saving at the higher level - not trying to squeeze the supply chain. They're trying to streamline operations so that they move smoother and quicker."

To find out more about China and other global markets, the 20th FPSO World Congress 2019 will focus on moving from concept to practice- integrating innovation with cost discipline to ensure project profitability and business sustainability. Join us this September in Singapore.





FPSO WORLD CONGRESS 2019

www.fpsoworldcongress.com