

Clearing the way for transparency

The second day of Tanker Operator's first international conference focused on transparency and issues surrounding the professional services to the shipping industry

Transparency, information sharing and legislation were the hot topics of Day Two of Tanker Operator's first international conference held this February in London. Peter Swift, managing director at Intertanko, chaired the day's proceedings and reminded delegates that the industry was very active in seeking change and improvements and said much work was ongoing: "We are not just waiting around for rules to be passed, we are working on many levels," to improve the industry's performance and reputation, he said.

A keen supporter of the informal campaign to get the coastal states to endorse and create places of refuge, Mr Swift said: "Perhaps one of the biggest threats to coastlines is engine failure. We need better information sharing and better inter- and intra-association dialogue".

David Savage, SIRE training and development manager, said that that his organisation celebrates its 10th anniversary this November and is now well accepted within a once sceptical industry. As part of OCIMF, the Oil Companies International Marine Forum, SIRE now has 28 members submitting and accessing reports. Close to 100 non-OCIMF members are now receiving reports and over 400 owners are submitting vessel details. However, Capt. Savage expressed disappointment that only a handful of port and flag state authorities have taken advantage of the system.

SIRE

There are now around 4,300 vessels with reports in SIRE.

SIRE is continually seeking more effective ways of receiving and publishing information and is now fully accessible through the internet and is close to being able to accept comments via email instead of by fax.

A further development will see SIRE reporting on barges and small vessels with deadweight of less than 500 dwt.

In discussing transparency Dimitri Lyras, director of Lyras Shipping, said oil companies are "increasingly exposed to liabilities related to their transport supply chain and that they must make sure that the chain stands up to vigorous scrutiny in all eventualities."

The political backlash suffered by French oil major TotalFinaElf during the Erika spill highlights the impact such events can have on both public image and stock market evaluations.

Calling for companies to increase their operational transparency, Mr Lyras noted that a greater flow of information within a company has legal implications and that lawyers must work closely with managers to avoid later problems in which a blame culture is prevalent and job insecurity an unwelcome facet of daily business. "The general public needs to be reassured that the (shipping) company operations are being properly monitored by independent experts".

Benchmarking is a management tool being introduced to the shipping world to enable executives to judge their performance against their peers, said Paula Puzet, marketing director of Drewry Shipping. It is a diagnostic tool that identifies the "specific gap between where you are now and where you want to be. It can help define how to close the gap."

Its application in shipping could include operating efficiency, for example, utilisation levels for each vessel, and safety and environment, for example the number of crew days lost due to accidents.

Peter Goodfellow, president and chief executive of Stelmar Shipping, described the value of being a publicly listed company on the New York Stock Exchange, one of the few shipping companies to take this demanding route. The company is set to become the world's largest owner of modern panamax's after taking delivery of five vessels from South Korea's Daewoo Shipbuilding. Mr Goodfellow said raising cash to buy vessels, such as the ten tankers picked up from Osprey after its New York IPO in 2001 is a typical reason for going public.

The move also boosts transparency and promotes good governance, both key issues in the wider tanker market if the sector is to gain the general public's interest.

Mans Jacobsen, director of the International Oil Pollution Compensation Funds (IOPC), said that the international compensation regimes established under the Civil Liability and Fund Conventions (CLC) area one of the most successful compensation schemes in existence over the years. Funded by a levy on oil movements, the CLC will be reviewed by the IMO in May. "It was drawn up 30 years ago and is still being developed," he said.

Stephen Drury, partner at law firm at Holman, Fenwick & Willan, discussed the legal implications of a tanker's age, noting that the general public's perception that a tanker is substandard if described as elderly is regaining currency in the wake of the Prestige disaster.

Risk assesment approach

Don Nordin, engineering manager at ABS Consulting, presented a clear explanation of a risk assessment approach to ship operations, including tanker operators. He emphasised the solution-driven results and focused initially on definitions and implementations.

Premiums of P&I Renewals would increase substantially, especially those for the International Group programme, said Heinz Gohlish, Tanker Operator insurance correspondent. As the world faced conflict in the Middle East, many delegates questioned whether the Clubs would charge higher premiums for terrorist cover. Mr Gohlish said: "it is unlikely in the short term. The clubs would prefer to exclude this cover altogether and are moving in the direction of limiting payouts".

Other conclusions reached by Mr Gohlish included that the main clubs writing business for tanker operators remain largely unchanged year-on-year and that they would increase Advance Calls by as much as 25% for 2003.

Michael Moon, a solicitor with Shaw & Croft, brought the issue of war risk (WR) into the limelight with delegates keenly aware of the impact of a war in the Middle East would have on tanker shipping in the region. The emphasis was initially on the structure of war risk cover, i.e. exclusions, writing back in, then excluding for certain regions with 7 days notice, and then re-instatement at special terms. There was also an emphasis on charter party clauses relating to WR and the importance of these clauses. Discussions centred on the importance of charter parties to clarify owner's and charterer's positions.

In the conference's final session, Dagfinn Lunde, member of the board of managing directors at DvB Bank and a previous managing director of Intertanko, brought the issue of bank consolidation into the forum. The shipping finance community is seeing at first hand the impact of the continuing consolidation of international banks, which has resulted in less peer group competition, but a sector buoyed by many more resources.

Over the past decade, Mr Lunde said, 40 banks have merged into six giant entities. However, "only about one third of all mergers have actually resulted in increased shareholder value".

In the early part of the 1990's numbers of world-class shipping banks increased in number until 1997 before falling to around the present 34, worldwide. Between the years 1993 to 2001 ship finance portfolios grew from \$74bn to \$163bn.

In his presentation, Simon Hartley, a shipping finance specialist and partner in the banking department of international law firm Norton Rose, posed the question: "Are tax-based financing structures becoming more friendly to tankers?" focussed on the UK lease market. In answering the question, he said that if the LNG or other shipping sector were under discussion, then he would be able to paint a very rosy future for the marriage of ships and the UK lease.

"The picture for tankers is more complicated, and unfortunately one cannot speak with the same level of assurance about tankers and UK leasing.

"However, please do not be discouraged. Whilst the range of deals that might be done are narrower, and whilst lessors may need more convincing, there are still deals that can be done" he said.

Wrapping up the conference, Tom Even Mortensen, managing director of derivatives clearing house Imarex, spoke of how the failure of the US-energy giant Enron has not dealt a fatal blow to the tanker derivative market. "The tanker derivatives market is here to stay and will continue to grow in importance," he said.

A key financial instrument of this highly specialise market is the freight swap where a ship owner buys freight forward to hedge against future reductions. Tanker swaps can also be traded in the market or through clearing houses such as Imarex.