

## **Tanker Operator conference**

### **Reporting from the first Tanker Operator conference held on February 11-12, 2003 at the Inmarsat headquarters in London**

Over 100 top industry personnel converged on London for Tanker Operator's first Annual conference to hear the latest views and news of an industry very much in the spotlight. The event inspired impassioned debate and heated intellectual discussion about a range of thorny subjects ranging from transparency to the EC's response to the sinking of the Erika and Prestige tankers.

Twenty five high powered speakers laid bare the issues and debates raging around the industry at this sensitive time. The international tanker industry is facing a huge number of challenges as it strives to cope with the aftermath of the sinking of the two tankers. All aspects of the industry were represented from the European Union legislators, the IMO and the US all of whom are mulling over a raft of changes to conventions, laws and codes in a bid to bring greater transparency to the industry. The following article details the presentations made during the first day of the conference highlighting the issues, concerns and challenges faced by the tanker industry. Papers presented on the Day 2 will be reported in Tanker Operator's April issue.

#### **Daily challenges**

Oil tanker operators face hundreds of challenges on a daily basis in their work to transport millions of barrels of oil around the world. High profile incidents such as the sinking of the Erika and Prestige tankers off the coast of western Europe have thrust the opaque world of tanker operations in the media and legislative spotlight.

Many of the issues raised are already being tackled by the industry, but much more needs to be done to weed out substandard operators and give the industry a positive image and an appreciated role to non-shipping world.

Stewart Wade, vice-president of US-based classification society ABS and conference chairman for the first day, kicked off the conference with a thoughtful, scene setting introduction.

Stating that it was impossible to mandate or legislate for complete safety coverage of the world's fleet, not least because of terrorist action as witnessed by the attack on the VLCC Limburg while at anchor in Aden, Yemen.

Mr Wade noted that the industry should be proud of its operational record. "But, we as an industry are not doing enough to counter accusations of poor operations. More must be done. And it's up to you," he said.

"There should be zero tolerance among our industry for substandard operators, and a commitment to transparency"

He concluded that these are "challenging times for the industry. (Only) those who are astute and nimble will be well rewarded."

Seasonal factors are again playing a role in the tanker markets after the repercussions and shock of the September 11 terrorist attacks said Colin Cridland, head of research at London-based ship brokers Braemar Seascope. Other factors contributing to the bullish market include suezmax and aframax congestion in the Bosphorus with tankers delayed by up to seven days, fear of a Middle East conflict, a diminishing net increase in new tanker deliveries and what Mr Cridland calls the 'Prestige factor'.

However, Mr Cridland highlighted a slow pickup in US consumer demand and GDP that trickles down into lower demand of oil products and shorter voyage distances as potential depressants on market rates. Increased shipments from the former Soviet Union and Baltic Sea, West Africa and Brazil have combined to cut voyages adding to the pool of tankers available for charter. A large order book, high oil prices

sustained by political worries and not by demand and bleak predictions for the world economy have also added to gloomy predictions.

Ship owner Alex Papachristidis-Bove, president and chartering manager of Seatramp Tankers, urged fellow tanker operators to consider joining forces to optimise utilisation and satisfy a broader market base. The market is changing and with environmental pressure intense, "oil majors need quality owners more than the quality owners need the oil majors."

Seatramp, owners of the highly regarded Hellenic fleet of supertankers, called for the industry to mature and make its money from high quality service "rather than opportunistic sale and purchase activity."

Warming to his merger theme, he said, "big fleets rule. Scandinavia is leading the race with a number of huge, stable companies including Bergesen, Frederiksen, Stolt-Nielsen, Moller and Maersk." In North America, "we see evidence of the type of critical mass we wish we had in Teekay, AET and Heidenreich's Star Pool."

Mr Papachristidis-Bove noted that movement had started in the Greek shipowning community, picking out Tsakos Energy Navigation, Angelopoulos, and General Maritime for special mention.

Further advantages of merging or pooling included economies of scale on voyage costs (for example, port expenses and bunkers) and "providing a stronger asset base for accessing capital and renewing fleets in a rational manner."

With Neptune Orient Line put up for sales by its owner American Eagle Tankers for around \$400m, further consolidation is inevitable. Leading bidders are believed to be Teekay, Malaysia Shipping International, General Maritime and Tsakos Energy.

Harry Vafias, director of Stealth Maritime, discussed the sale and purchase markets and how he is building up his fleet with astute deals on his favoured afraxes and VLCCs. (A full interview with Mr Vafias appeared in Tanker Operator, Nov/Dec 2002.)

Alex Staring, director of operations at shipowners' pool Tankers International (TI), put up a spirited analysis of the advantage of pooling tanker operations noting that some of the world's best known VLCC owners are involved in TI including AP Moller, Oldendorf, OSG, and Euronav.

The tanker ownership market is fragmented with around 227m dwt operated outside pools and just 28.5m dwt currently managed in pools.

But as the client market consolidated and significantly reduced the number of marketing options with Exxon taking over Mobil, and other significant mega deals such as BP (Amoco, Arco, Castrol); Total (Fina, Elf) and Nippon (MOC) so has tanker pooling risen in importance, said Mr Staring.

"There are many advantages of pooling," he said. "Cash flow improves, it offers a more stable platform for bank financing, access to private cargoes and increased back haul opportunities."

However, Mr Staring did not gloss over the disadvantages. "It is considered a threat by some charterers whom fear a loss of competition. Pool partners have to compromise on strategy, and major decisions may take longer as all partners must be involved and it may reduce flexibility for technical scheduling".

Challenged by conference delegates on why the tankers aged 15 years and above were returned to the owners and whether TI was currently working at its optimum size, Mr Staring said: "TI does not make the decision when to end the contract, it's up to the owners". What they do with the tankers after that is up to them TI has no influence, he said. Referring to TI's current fleet size, he said: "When the rates are low we get lots of enquiries, but when the rates are high we get very little interest from owners asking about joining."

Capt. Frank Sturm, chief of US Coast Guard Activities/Marine Inspection Office, Europe in Rotterdam spoke of the range of measures currently being set up or considered in a post September 11 USA. The US's maritime transport system contributes \$142bn annually to the country's gross domestic product, with 95% of its annual overseas commerce flowing through its ports. Nearly 1bn tonnes of crude oil

and petroleum products are shipped in and 156m tonnes of hazardous cargo is imported. "In a post Sept 11 world, we have to carefully balance our security needs with freedom of movement," said Capt. Sturm.

"The marine transport system is extremely complex and vulnerable to terror attacks. However, it is difficult to identify problems in the maritime domain and our knowledge is lower than we would like".

The US has already put in place new security measures at its ports including increasing advance notice of arrival times from 26 to 96 hours and demanding more information on manifests, crew and passenger names. Other ongoing discussions revolve around simplifying ID cards to avoid confusion about gaining access to various different secure areas in a port.

Capt. Sturm added that amendments to the International Ship and Port Facility Security (ISPS) Code, as agreed by the IMO in December 2002 would in the heavily IMO influenced mandatory part A section would be supported by the US insisting that recommendatory Part B, would be made mandatory for the vessels entering the US Port security plans are Solas compliant and, together with the revised ISPS Code, are expected to be implemented no later than July 1, 2004 said Capt. Sturm.

However, the dynamic nature of the assessing and meeting security means that many issues remain unresolved, said Capt. Sturm. Key issues under discussion include determining the physical limits of a facility, how to identify vessels and facilities that may be involved in a security incident and identifying and developing formal training requirements and standards.

The changes are wide ranging and demanding with incoming vessels expected to reveal the previous ten ports of call and making sure that they all comply with incoming security legislation.

Terje Staalstrom, senior vice president with responsibility for ship classification policy at Norwegian classification society Den Norsk Veritas, said that the "tanker sector is the single most regulated sector in the industry, and keeping up with the IMO and other regulatory bodies can be difficult".

Two key regulatory bodies IMO and IACS (International Association of Classification Societies) are considering splitting roles in setting safety standards of tanker scantlings. Aiming to "harmonise IACS regulations to ensure more robust ships meeting industry and societal expectation," IACS is submitting a paper to MSC 77 to define roles and outline strategic regulatory development, said Mr Staalstrom. IMO is expected to set overall safety standards and acceptance criteria, for example relevant failure modes, and overall design parameters while IACS will take responsibility for developing and verifying implementation of detailed technical regulations, said Mr Staalstrom. "This splitting of roles is very important and will be closely argued over at the meeting."

Onboard security is being closely scrutinised with seafarers access to sensitive, non-relevant areas of their vessel restricted. Here IACS is leading a joint industry working group including the International Chamber of Shipping, Intertanko, Intercargo and Bimco, in a bid to formulate a set of standards.

Other tanker operations that can expect to see future legislation applied include corrosion protection. In a post-Prestige world, Mr Staalstrom said, "for ships over 15 year, all ballast tanks, irrespective of location and recorded coating condition, shall be inspected internally at every annual survey."

Class issues have been thrust into the limelight in the wake of the Erika and Prestige oil spills and have been forced to explain what their role is to a sceptical public. Alan Gavin, marine director at Lloyd's Register in London, addressed the question "what more can Class do to assist the tanker operator?"

A key conclusion he reached was that class could "use analysed data to benefit the operator commercially, and at the same time improve safety and quality."

Data comes from many sources but, for example, he said, "any data relating to inspection or detention of the 6,000 ships in the Lloyd's Register class fleet can now

be used to raise awareness of the major items causing detention and hazards from combinations for deficient items."

After informal research amongst LR clients, Mr Gavin says a main concern is the lack of an equitable, competitive commercial field. For example, "where double hull tankers are competing for work with older single hull tonnage. Costs for the double hull were more for less cargo and if the older tonnage was not being maintained then the differential was higher." However, he noted "things are changing after the Prestige as there are calls in the EU for faster phase out of single hulls and possible unilateral action by certain countries to do the same."

These areas are among many being tackled by LR and other member of IACS. Each class society is targeting the quality of its own fleet and, within IACS, the Paris MOU Black List Flag States are being approached, said Mr Gavin.

Brad Bermann, executive vice president and general counsel of the Liberian ship registry, sought to show how flag states, often pilloried for slack performance, could improve operations and service.

He said "flag states must strengthen their link in the chain of responsibility particularly with the increased concern and legislation over terrorism and security."

Flag states must insure compliance with international requirements if their role is to be more widely respected. But flag states needed guidance and legislation to help weed out the poor performers and although "through the IMO the industry has a mechanism to report irresponsible flag states, it needs teeth," and greater executive powers to affect change, he said.

Recruitment into the shipping industry is a troublesome issue with the numbers of young people attracted to a life at sea in steady decline. Even numbers and quality from developing countries is in decline, says Douglas Lang, managing director of Anglo Eastern Crew Management.

Three years ago Mr Lang, together with Southampton, UK-based Warsash Maritime Centre initiated the 'Alternative Manning Study' with the support of other ship managers and interested parties to discover whether there was a better way to organise the manning structure onboard which, in terms of duty and structure, has remained largely unchanged for over 200 years.

The study has many aims, not least to determine whether there is a fundamental conflict between the aspirations of new entrants and the career structure offered by the industry. Is the structure putting off potential recruits whom are more easily seduced into a shore based IT job, for example, asked Mr Lang.

The study is expected to be published in April 2003. Based on research done to date, Mr Lang said: "Alternative structures appear to exist that could equally meet the aspirations of both the industry at large and the people it wishes to attract, retain and employ."

There is a need for commonly agreed structural criteria for existing vessels, said Bjorn Sodahl, quality and safety manager for Concordia Maritime, discussing what charterers can do, through vetting, to enhance the effectiveness of their own role in the safety chain. "This is especially important as post-MARPOL tankers, including double hulls reach higher ages," he said.

Calling for the industry to take positive steps towards a new structural vetting regime Mr Sodahl called for the acceptance of uniform, relevant and explicit engineering criteria, including adequate buckling checks, transparent presentation of data and margins expressed in millimetres, not percentages so allowing better understanding of steel condition.

Far from getting any easier, management of tankers is certain to get more complex, said Bob Bishop, chief operating officer of V.Ships Shipmanagement.

With increased regulation and burgeoning media scrutiny on behalf of a cynical public, risks will be greater and risk management will be ever more crucial he said.

While Mr Bishop anticipated a gradual increase in third party management outsourcing from the current 15% of the world's tanker fleet, he emphasised that

managers will need to do more to demonstrate control, performance and value to clients in order to win new business.

"Winning managers will need to have robust management systems in place which in turn will allow them to provide adaptable and bespoke solutions, such as providing superintendents in clients' own offices, hybrid j.v. type relationships and franchise 'virtual' office solutions, together with key performance indicators covering all the vital areas of management," he said.

Mr Bishop noted that all the industry research among owners that he had seen pointed clearly to the fact that crucial shipmanagement decisions would be based on trust and integrity, established upon a platform of technical ability and responsiveness.

"Without reputation, there is no business to be conducted in today's media scrutinised environment," he said.

Mr Bishop reflected that price did not appear to be the most essential criteria in evaluating shipmanagement, as a manager's fee represented such a small fraction of a vessel's running cost. He did comment, however, that generally shipmanagers often found it very difficult to get the risk reward ratio to tip in their favour rather than that of the owner.

Commenting upon the challenges facing both tanker owners and managers, Mr Bishop suggested that loss of reputation was perhaps the biggest single risk facing both groups. "Start collecting a string of Port State Control Detentions and watch the approvals slip off the page," he said.

Suggesting that poor inspection reports on public databases such as Equasis were probably bigger areas for concern for quality owners and managers than flag state inspections, Mr Bishop said there was still much work to be done in establishing correct criteria for detentions.