

Working in a zero tolerance market

Bob Sommerville, president and chief executive of ABS, gave this keynote speech at Tanker Operator's first Greece conference in which he examines a range of key issues impacting upon the global tanker industry

This is a very difficult and challenging time to be a tanker operator. It is not much easier for those of us in the related sectors, such as class. We also find ourselves having to react to these same new regulatory demands.

We must rapidly develop and implement new rules. We must constantly amend our survey requirements. We must review our staffing levels to meet the new demands of the expanded Condition Assessment Scheme (CSA). And we find ourselves exposed to the same threat of criminal penalties as do you, the tanker operator.

In the rare event of a tanker casualty, it is likely to be the class society, rather than the operator that finds itself in court, subject to monstrously unreasonable claims and penalties.

We are all of us aware of these challenges. We can all spend the rest of the day discussing the unfairness of it all. We could spend the day talking about how a well-built single hull tanker is a safer ship than a double hull tanker, particularly as it ages. But we would be wasting our breath ... the new European Union regulations are a fact of life.

We will have to wait a few more weeks to see if the IMO will allow itself to be bullied into adopting the same accelerated phase out schedule that will send ships as young as 14 years to an early date with the scrappers.

Regardless, the challenge confronting us all, both owners and class, is how to adapt to these new requirements in an effective, sensible and safe manner.

The challenges can be broken into three principal sectors:

- how do we build sufficient new double hull tankers to continue to satisfy demand;
- how do we address the maintenance of the existing fleet of single hull tankers in the period up until phase out;
- and how do we anticipate and deal with the operational problems that can be expected as the new fleet of double hull tankers begin to age?

These statistics should be familiar to you all. Clarksons estimate that 461 Category 1 tankers will be phased out by 2005. (Intertanko estimates are more conservative.) Category 1, I remind you, is pre-MARPOL single hull tankers without segregated ballast tanks.

Because of the age of the existing vessels that fall into this category, and given the significant ordering of new tankers that has taken place over the last three years, this requirement is not expected to have a significant impact.

Of more dramatic import is the accelerated phase out of 701 (by Clarksons' estimate) Category 2 single hull SBT tankers by 2010. This will impact all sectors from product tankers to vlccs and has given rise to something I have never before seen - the recent reservation of a 2009 building slot by a forward looking owner.

There has been a lot of debate within the industry and at the IMO over whether the necessary number of new tankers can be delivered in an orderly fashion so that the supply remains adequate to meet demand. Personally, I have no doubt that this can be done.

The existing order book stands at 71.8m dwt. That will adequately address the 2005 phase-out. This year will see twice as many tankers delivered compared to 2001,

despite an aggressive demand for building berths by both containership and bulk carrier owners.

The largest Korean yards are expanding their facilities to accommodate their growing offshore related work so that these activities will not infringe on their traditional ship dock space. And, most importantly, the growth in both facilities and productivity of the Chinese shipbuilders is so rapid that I believe there will be ample capacity to meet demand without any significant price inflation.

There is a second element to the new-building issue that deserves mention. It is intended that, hopefully effective 2005, the classification rules for double hull tankers above 150 meters will be harmonized for IACS members.

This initiative has grown out of the project that was started by ABS, DNV and LR to jointly harmonize their rules. It was in response to growing industry demands to end the pressure being exerted on individual societies by shipyards seeking to minimize rather than optimize scantlings.

I don't think anyone has yet fully thought through all the possible impacts of this fundamental change in the manner in which class rules are established and maintained.

Once adopted, it will mean a more level playing field with greater clarity for both shipyards and owners. It should translate into quicker and easier development and approval of new designs. And it will mean more robust structures.

One of the key points of agreement between the three initiating societies when starting the harmonization process was that the most robust existing criteria among the three would be used to set target structural criteria rather than the mean or lowest criteria. That means that, wherever a differential exists, the highest, not the lowest standard shall apply.

The second principal issue confronting the industry is the maintenance regime for existing single hull tankers as they age. This is a critical concern.

The imposition of an artificial age limit on existing vessels removes many of the incentives that currently exist for an owner to maintain his vessel to the highest standards. This will be accentuated by the emergence of a two tier market in which the earning power of the single hull vessel is also reduced, providing the owner with less money, and even less incentive to maintain his vessel.

In such an environment the prospect of criminal sanctions against a polluting ship, its crew and its operator is probably viewed by the regulators as providing the necessary check. Personally, I believe that any such confidence is misplaced.

The master may end up in custody but an owner who adheres to such a high risk operational style is likely to melt away long before the authorities are able to apprehend him. The consequence is that it will be the responsible owners, the class societies and the crew who will bear the brunt of these sanctions, not the person with the ultimate responsibility.

The expanded Condition Assessment Scheme mandated by the EU is another attempt to address this issue. It is well meaning in its intent but, in my opinion, the administrative aspects should be revised to improve its efficiency.

The new EU provisions take effect today. As from the anniversary date of their delivery in 2005, all Category 2 and 3 tankers, regardless of flag, over 15 years of age, will be required to have passed CAS in order to enter or leave a port under the jurisdiction of a Member State, or even to anchor in an area within such jurisdiction. It is to be hoped that clear heads and industry arguments that CAS cannot be effectively implemented on a global basis within the EU timeframe will prevail at the IMO in December. Even if an extended implementation period is adopted by the IMO, it will involve a great deal of cooperation between you, the operator, your class society and your flag state administration.

There has been some concern expressed as to the staffing levels of the class societies to meet the added requirements of CAS. I can only speak for ABS but I can

assure you that, provided CAS is aligned with current statutory requirements, we are confident that we can meet the challenge.

Ironically, the rapid phase out of the older tankers that require extensive and time consuming survey, and their replacement with newbuildings, will free up the needed experienced surveyors who will lead the CAS surveys.

Regardless, you can be assured that classification scrutiny of single hull tankers will be intense in the period until their phase out date, with particular emphasis placed on the last special or intermediate survey.

There is zero tolerance on the part of governments and the public at large for any incident involving pollution. It is an unreasonable expectation but the penalties associated with any incident are so severe for all parties concerned, including class, that we have no choice other than to apply the most rigid standards to mitigate this risk during this period.

We now require two surveyors on all hull surveys. We require annual inspection of all ballast and cargo ballast tanks on single hull vessels if certain conditions apply.

These include substantial corrosion, no coatings, soft coatings or coatings that have been deemed less than good. These requirements are in addition to those that previously applied to spaces adjacent to heated cargo spaces.

The third issue that concerns me as much as any other, is the question of developing appropriate survey and maintenance regimes for the new double hull tankers.

It is only a matter of time before there is a significant pollution incident involving a double hull tanker. What we must all strive to do is to minimize the risk that the initiating cause can be traced back to a failure in the maintenance of the vessel. That is a real challenge.

Some of the problems have already been clearly identified including:

- accelerated pitting of the cargo tank bottom plating;
- coating breakdown and corrosion of the double hull spaces;
- and leakage of oil from the cargo spaces into the double hull spaces due to cracking, pitting or other detail failure as the vessel ages.

The Tanker Structures Forum has already done some excellent work in these areas.

Ultimately, the responsibility lies with the owner to implement an effective maintenance regime that addresses these areas of potential weakness.

But I do think it would be valuable if the various representative bodies - OCIMF, Intertanko, Martecma and others were to convene with the principal class societies to jointly agree sensible and effective standards for maintenance and survey in advance of the first, inevitable failure.

We may have different responsibilities but we have a common objective - the safe transportation of oil while protecting life, property and the environment. If we are to do that, we must work together.

We are all laboring under the burden of increased governmental regulation. That has come about because, rightly or wrongly, the industry is perceived to have failed to adequately regulate itself.

I am sure that we would all prefer self regulation to intrusive governmental regulation.

But self regulation requires us to work together, to respect each others needs, and to develop, implement and enforce sensible, practical standards in which our customers, our governments and our communities can have confidence.