

## Tanker Operator London

### **Our 2nd annual conference in London included heated debate about the role of class in maintenance, practical issues with the ISPS code, how IMO and EMSA fit together, and improving the image and self esteem of the industry**

An industry helpless in the face of legislation, with a low self esteem, seen only by its shadow not in its true light, taking undue risks, having to catch up with the rest of the world.

Some of the comments about the tanker operations industry made by its own executives and regulators at Tanker Operator's London conference.

But at the same time we also have an industry gradually becoming recognised and respected, rather than hidden behind the more glamorous tanker asset play.

This industry is about providing a quality service, moving cargoes safely and efficiently, demonstrating that the transport is safe and efficient and being recognised and rewarded for this, by charterers, regulators and employees.

This industry is about the people responsible for their ships comfortable in front of the television cameras after a spill - knowing that they won't be judged by the public just because a spill occurred, only if they didn't do everything possible to try to prevent it and minimise the damage.

The industry is also forming more co-operative relationships with its regulators.

At IMO, we see the International Association of Class Societies (IACS), working together with a group of shipyards, shipowners and charterers, making a technical document proposing changes to the regulations for permanent means of access in tankers, submitted by Greece to the 23rd IMO assembly.

We also see IACS proposing to EMSA that it form a technical body to work alongside EMSA in an advisory capacity.

The maritime industry is clearly much more comfortable being regulated by the IMO than by the European Commission - an international industry should have international rules, everybody says. But IMO is normally less demanding than the Americans and Europeans.

The European Commission got a big wake-up call with the Prestige - whatever the actual cause of the accident, it drew everybody's attention to a tanker in dubious condition, on a long haul trip with a polluting cargo, in very bad weather condition, with owners that were not easy to trace.

Many people thought the tanker was taking too much risk, and something had to be done about it - do you think they have a point?

#### **Willem de Ruyter**

Willem de Ruyter, executive director of the European Maritime Safety Agency, opened the conference by explaining that there is no point in the tanker industry complaining about the poor perception the public has of it.

"As maritime experts we feel a bit hurt by this negative image we have from the public," he said.

"We believe that tanker shipping is vital for the world economy. But it is not productive to complain that the public is ungrateful by acting in the way it does.

"When there is oil on the beach, the public will say you have to do better."

Mr de Ruyter pointed out some of the weaknesses of IMO as an international regulatory system.

"IMO is able to respond quickly - especially when the Americans twisted our arm after September 11th," he said. "IMO is the global standard setter."

IMO is a board of experts, he said, but does not have representation from the public at large. "In general the process is slow."

"There are no sanctions," he said. "There are too many nations signing up to legislation and not implementing them."

"IMO will get a bit more effective when it has an audit scheme," he said. "Europe has always been very much in favour of giving IMO teeth."

"There is a tendency at IMO to lack ambition and agree global standards which are not ambitious enough," he said.

Mr de Ruyter cited the requirement that marine fuel should not have more than 4.5 per cent sulphur in it (MARPOL ANNEX VI), although the current norm is for fuel to have around 2.5 per cent sulphur in it.

"That standard is irrelevant," he said. "It's like introducing a speed limit of 300 kph. Ratify or not, what is the difference."

Peter Swift, managing director of Intertanko, explained that work on Annex VI actually began in the 1960s, and at that time 4.5 per cent was a significant advance. If Annex VI had been ratified in 1997, it would have led to a large reduction in international VOC emissions, he said.

Du Dachang, assistant executive secretary Marine Environment Protection Committee with the International Maritime Organisation, was not happy by Mr de Ruyter's comments. "You can never judge what the IMO can do," he said.

Mr Du stressed that shipping must be regulated at a global level. "The USA says they can impose measures and just 'notify' IMO," he said. "If everyone adopted unilateral measures then shipping would not know what to do."

Responding to Mr de Ruyter's comments that IMO is too slow, Mr Du said that many thought IMO was acting too fast. "The member states cannot catch up," he said.

"Many people talk about giving teeth to IMO," he said. "Certainly IMO has got just one tooth. IMO needs at least two - one tooth cannot fight. "

### **EMSA's objectives**

EMSA first current objective is to monitor legislation, "inspect the inspectors, control the controllers," he said. This includes auditing class societies. EMSA will also take member states to court.

A major EMSA objective is accident investigation. "There is a problem in this field," he said. "Think of the Prestige - 14 months after the event, the report is not seen. They are often contested, often there is no report at all. We need technical investigation."

"EMSA has been given two tasks with accident reporting: make a common methodology and set up a common database."

EMSA's accident investigation would cover accidents in EU waters and ships registered with EU member states.

Mr de Ruyter made comparisons between the maritime and aviation, in terms of how accidents are investigated. "In aviation, at global level, it has been agreed that each state must have an accident investigation body. This will be the next step [with the maritime industry in Europe]."

Peter Swift, managing director of Intertanko, agreed this is an important area for EMSA to focus on.

"If we talk about jigsaws, this is one where there might be missing pieces," he said.

"The history of accident investigation has been lamentable, absolutely pathetic. We clearly know that the system doesn't work. I think you will have our support."

Mr Swift noted that in the aviation world, the manufacturers get involved in accident investigation. "I hope we will do the same for ships", he said.

A second EMSA objective is to operate oil pollution services. "When oil is in the water, EMSA should mop it up," Mr de Ruyter said.

EMSA will work together with the existing oil pollution services of member states, patching up weaknesses and developing a consistent European approach.

A third objective is the ship-reporting directive, which will share information between member states about vessels around the coastline, so that the shipmasters do not

have to report separately to each of them. EMSA will set up a network of coastal stations.

There will be an EMSA seminar on March 4-5 about the Ports of Refuge issue. EMSA is currently expanding; it currently has 35 staff, and has 3,000 CVs already to go through for a further 9 positions. It expects 80 staff before the end of the year.

### **Bernardo Urrutia**

Bernardo Urrutia from the Maritime Safety Unit of the European Commission, recognised the strategic importance of tanker shipping to Europe.

"The oil tanker sector is a sector of vital importance to the EU," he said. "It is not only a strategic sector, it is an efficient sector which creates value. It is a growing business."

The aim of the European Commission is to promote a safe, fair and level playing field for oil tanker safety at world level. "It's not about penalising everybody."

"The questions we have to ask ourselves are: what are the conditions we need to meet to let this sector grow in a responsible manner."

"Let's take the case of the Prestige," he said. "An old single hull tanker, carrying large amounts of very dirty oil, had a serious risk of structural failure, doing a very long haul trip in bad weather."

"Serious safety shortcomings have been addressed in the tanker sector. There were urgent alarms about the urgent necessity for new regulation. We need to take measures to prevent risk. The delay of IMO measures was considered too long."

Mr Urrutia noted that the European Commission is happy with the outcome of the IMO discussions on double hulls in December 2003. "IMO has found a way to solve a particular problem," he said.

"IMO is the appropriate forum to agree on worldwide solutions," he said. "We consider this piece of new legislation is a step forward for preventing risks."

Mr Urrutia agreed that in the oil tanker sector quality has not always been rewarded. "These are the challenges we have to address," he said.

### **Port State Control**

Carien Droppers, assistant secretary with the Paris Memorandum of Port State Control, said that the role of Port State Control is geared around elimination of substandard ships.

"We still see substandard ships," she said. "Substandard shipping pays."

"If the owner, flag and class do not do their jobs, then port state control does it," she said.

The Paris MOU has a targeting system to estimate the likelihood of ships coming into European ports being substandard - the higher the target factor the more likely they are to be inspected.

It has a tool on its website, [www.parismou.org](http://www.parismou.org), shipmanagers can use to estimate the likelihood of an inspection. If the target factor reaches a certain level, the ship must be inspected before being allowed to leave the port.

Issues which increase the target factor are: the flag on a black list; an older chemical tanker, bulk carrier, gas carrier or passenger ship; a non EU recognised class; the ship coming into the region for the first time in 12 months; the ship not inspected for 6 months; the ship having a detention record or outstanding deficiencies.

Ships with deficiencies will be detained on their first inspection; the detention will be reported to flag state and owner, and detained vessels are listed on the website.

If a vessel jumps detention, fails to call at an indicated repair yard or has no ISM certificates, it will be banned. Also, certain ship types with a blacklisted flag and a record of multiple detentions will be banned.

The flags at the top of the Paris MOU white list are UK, Sweden, Finland, Isle of Man, Germany, Ireland and the Netherlands.

Port state control inspectors are trained in soft (human) issues of ship operation, including ILO and STCW, and then the hard (non-human) issues - hardware, maintenance and ship types.

At present, the name of owner and operator is also published, using information taken from ISM documents. Discussions are underway to also publish the name of the ship charterer.

A quality reward system is under discussion, to find a way to reward good owners (possibly with fewer inspections). However the best way to reduce the number of inspections is to operate ships with a lower target factor.

Also on the drawing board are plans to create a black and white list of class societies.

Dimitris Lyras, director of Lyras Shipping, questioned Ms Droppers on the relationship between class and port state control, asking what happens if the class society does not agree with port state control that the ship should be detained.

Ms Droppers replied that there are procedures, and class and the port state control can try to solve the matter between them; if this doesn't work then there is a review procedure. However the port state control inspectors follow IMO legislation, not class rules, when determining if ships are up to standard, and port state control overrules class judgement.

Mr Lyras responded that the legislation set internationally is not detailed enough to specify exactly what constitutes a deficiency serious enough to detain the ship, whilst the class looks into the issues in much more detail. "IMO does not set such granular rules," he said.

Ms Droppers said that the Paris MOU aims to take into account all available views about ship detention.

Peter Swift, managing director of Intertanko, said that the Paris MOU does set an example to other MOUs around the world. "There are many elements of Paris MOU which all MOUs should follow," he said.

### **George Barclay**

George Barclay, secretariat of Equasis, which publishes information online about ship detentions, talked about the long history the maritime industry has of lack of transparency.

"In the days of the tea clippers, secrecy was very important," he said. "The first arriving tea clipper got the highest price, the last to arrive just broke even. Now it's not difficult to know where any ship is - various bodies require advanced notice of arrival."

"Substandard shipping, combined with the secrecy and get rich quick attitude of certain flag states, led to the development of port state controls," he said.

"The world's coastlines are now covered by port state control inspection regimes." However there are many problems with the Port State Control regime around the world.

Training of inspectors needs to be standardised internationally, he said. "This would go a long way to resolve the disparity between countries."

There is the problem of corruption of port state control inspectors. "It might be that corruption is endemic to a country - or the inspector is so badly paid it is the only way to raise a living."

"Pay the inspector a decent wage and raise the profile of the job," he said.

Mr Barclay advocated that all ship inspection reports should be published. Also well-established port state authorities should help the up and coming ones.

Charterers and insurers can also play their part in removing substandard shipping, he said. If they don't charter or insure them, they will go bankrupt.

A hot industry issue is determining whether Equasis should publish reports from port state control inspection regimes thought to be untrustworthy, or publish all reports,

good and bad, in the hope that that leads to standards being raised. "The jury is still out at the moment," he said.

Equasis plans to change the definitions it uses as a shipmanager. It will start publishing the company listed on the document of compliance as being responsible for the safe running of the ship. "The buck stops there," he said.

Rajaish Bajpae, managing director of Eurasia raised the issue of ships having too many inspections. "We are overwhelmed with inspections," he said. "The trend is not reversing."

Mr Barclay said that the reason ships needed so many inspections was because none of the inspection regimes trust each other and they are all looking at different things. "Until inspectors can agree on a common requirement there will be inspectors every 5 minutes," he said.

Björn Sodahl, quality and safety manager with Concordia Maritime, said he thought that charterer's names should definitely be published if they are involved in substandard ships. "It will make them think twice," he said.

Mr Barclay said that charterers' names would be published on Equasis as soon as details can be finalised with the Paris MOU.

Posting the names of insurers is not so easy, he said, because there can be 30 underwriters involved on a single vessel, sharing the risk between them, with the lead insurer only taking 0.5 per cent of the total risk.

### **Ugo Salerno, IACS**

Ugo Salerno, chairman of both IACS (International Association of Class Societies) and chairman of Italian class society RINA, talked about how a goal based system of ship quality could be introduced, with IACS working together with IMO.

The goal system could have several layers.

Tier I, he said, would be the simple goal that the ship should remain safe, if properly operated and maintained, for its expected design life, for example 25 years.

Tier II would be to work out how long the steel should last for (fatigue life), how long the coatings should last for, how much the steel should be allowed to corrode during its life.

Drilling down further, on the subject of fatigue, tier III and IV would be to do fatigue life calculations, work out procedures for checking fatigue, design loads, work out damage acceptance charts.

On the subject of corrosion, tier III could cover thickness measurements, tier IV the definition of acceptable corrosion margins, tier V the maintenance and inspection schemes.

Mr Salerno stressed that this would be a way to move the maritime regulatory environment from a culture of compliance to a culture of trust. "This philosophy is at the basis of goal based standards," he said.

"Goals must be clear, understandable, achievable and measurable."

IACS is currently working closely with the flag administrations of Bahamas and Greece [which originally suggested that IMO should lay down the top level goals for ship performance], he said.

"The rules we are developing a complete rules - general principles, design, design loads and strength," he said.

"I believe in the role of IACS as a technical body, to translate the will of the political body into the technical," he said. "It can interact with all the stakeholders and put together the experience of others in the industry, and put together the experience of others in the industry."

## **Ship security**

### **Captain Ralph Juhl**

Captain Ralph Juhl, director safety and quality with ship management company TESMA, talked about his experiences with the ISPS code to date. TESMA manages 70 ships, mainly tankers.

One problem is the freedom of officials in ports around the world to make subjective judgements which can cause expensive delays.

"A recent case in the Valdez Terminal - 3 tankers were ordered to leave the port apparently because of a 'security threat.' Is this the way of the future?" he asked.

Another major issue is requiring male seafarers to search visitors, including female visitors to the ship. "It is very humiliating, people are not used to it," he said. "It might offend human rights or unions."

Also, many seafarers do not have the education to be able to check documents held by visitors to make sure they are bona fide.

TESMA provides onboard guidelines for the ship security assessment and plans; it holds presentations on the ISPS code for officers to attain their commitment to the code.

Captain Juhl's advice was that a pragmatic approach to ISPS is the best.

"Your safety management system may cover most of this stuff already," he said. "Do not jeopardise safety by security measures. Align the ISPS to the shipboard safety management system."

"During the ship security audit, make sure that the first impression lasts," he said.

"Once onboard - recognise that the auditor will interview most of your crew, everybody with security duties. They all must be prepared to answer questions."

Manpower to guard the vessel is a tricky issue, particularly during cargo operations which often require all manpower available. Another problem is that many small ports and terminals are still exposed to the public.

There is potential to exploit the code for commercial purposes; for example, a cargo receiver wishing to delay the loading of the ship might complain that the ship is a security risk.

Another issue is resolving disagreement between different authorities about which security level applies, which can cause further delays.

The administration overload is enormous, he said. "Regulations create administration and the ISPS code is bigger than the ISM code."

Pressing the Ship Security Alert System onboard might be scarier than allowing terrorists onboard, he said. "As a master - do I dare hit the button? Do I get a place of refuge if I discover a bomb onboard?"

Imposing transparency on the aspect enforced under the ISPS code, Captain Juhl said, would ultimately lead to efficiency gains in administration.

Captain Juhl called for an internationally co-ordinated network of security forces tasked with policing the high seas, something like an international coastguard, and also an internet ship movement registry, enabling authorised personnel to find out where any ship is at any time.

Thomas Timlen, from Bimco, said he did not expect America to be running out of oil in July next year - there would be enough ISPS compliant ships by then for the Americans to be able to turn away non compliant ships.

"When the American government brought in OPA 90 - people said that the US government would run out of oil and it didn't," noted Andrew Craig Bennett.

### **Peter Raes, general manager, Tecto**

Peter Raes, general manager of shipping company Tecto and the only fleet manager to have ever been involved in a terrorist incident with commercial deep sea ships (the attack on the Limburg) was cynical about how helpful the ISPS code would be.

Conceding that criticising security measures is not the "done" thing, he proceeded to do so.

"But would the ISPS code have prevented the Limburg attack? I don't think so. The only thing that could have prevented it would be a gunboat."

"I think ISPS is a failed opportunity to protect the ship. It could have been a positive approach."

"There's nothing wrong, if you think a vessel is a security risk. If you want to check a container, do that. At the end, we know who will have to pay - the customer," he said.

"But the ship is not a weapon of mass destruction. It is a very remote chance. The vessel is slow. They are on radar control. It's not a sudden event like an aeroplane."

"It's much easier for a terrorist to attack a ship rather than attack it from within."

Denying seafarers shore leave is a serious issue, he said. "It is the duty of the state to protect its citizens - and also the duty of the state to protect the ship and its crew."

"In the only country where so far the ISPS code has been implemented - America - the crew are treated like potential terrorists."

"The fact that an individual crewmember has a European identity but an Arabic name is enough for the US to consider the vessel a security risk - raising it to level 2. "This means that all of the crew is prohibited shore leave. "Imagine the atmosphere onboard."

"That individual is subjected to serious cross-examination - European passenger or not."

"I went to the US Coastguard in Washington - they agreed with us. They take a pragmatic approach and say shore leave should not be banned. But they don't control it. It is all controlled on a local level."

"Our ships are running between Trinidad and the US Gulf. Trinidad is a security risk. Because it is coming from Trinidad it goes to level 2. It means no shore leave and extra lookouts."

"Certain of our crew sailing between Nigeria and America - they will not go ashore in 3 months."

"I had a problem with a junior officer getting seriously ill - I could not get him off the ship."

Third party ship management companies, acting on fine margins, have a very strong incentive not to accept seafarers which might lead to all of the crew not being allowed ashore in America or delays - not a very pleasant issue.

Mr Raes thought that terrorist incidents were far more likely to come from outside, someone attacking or hijacking the ship, than from crewmembers.

"On a bigger ship - don't we think that the social contact is big enough [to spot terrorists as crewmembers]?" he asked.

"The real nightmare is when pirates become terrorists. How can you deal with that?"

"More things start to go wrong within the code - the local authorities. You give a lot of leave to the local government. What's the easiest thing? Simply to refuse it. Don't let it in, or deny shore leave."

Mr Raes agreed with Captain Juhl that, faced with a genuine terrorist incident, seafarers might still feel like they are safer not pressing the ship security alert button, particularly if they expect authorities to make no differentiation between employed seafarers and their attackers and treat them all as potential terrorists.

In any case, the ship security alert signal should be sent to the Ministry of Defence of the nearest country, who would be best able to deal with it. "What will they do? I don't know," he said.

"Someone had ideas in Belgium - the SSAS signal comes to us [as shipowners]. So it comes to us. And the ship is in Indonesia. What do we do?"

"The signal should go to the local country's Ministry of Defence."

The delays are another major factor. "I'm not being detained now but I'm being delayed," he said. "Every LNG tanker going to the US is delayed for at least 24 hours."

### **Roger Heward, Norton Rose**

Roger Heward, partner with law firm Norton Rose, talked about how the British corporate manslaughter law is changing. British law covers any UK flagged ship and any vessel in UK waters, and is often followed by other regulatory regimes.

"Under the Merchant Shipping Act, the owner of a UK flag vessel, or vessel in UK port, which is dangerously unsafe, is guilty of an offence."

Holding companies criminally liable normally requires a guilty state of mind. "A company is a construct that does not have a mind," he said. "But under UK law there are specific people who are regarded as the ego of the company, including the directors."

Shipowners can escape this responsibility if they can prove that the management function has been passed to another person or organisation.

IMO's MARPOL convention makes a distinction between deliberate oil discharges and accidental escapes, with criminal liability only applying in the former. The European Commission on the subject extends the regime to "gross negligence."

A company director can be convicted of manslaughter if "he owed a duty of care to the deceased, the duty was breached and this was a major factor in the death," he said.

"The jury is asked to consider if the defendants disregard for life should be considered a criminal act."

Mr Heward mentioned the Herald of Free Enterprise tragedy in 1987, when manslaughter charges were brought against 7 individuals. "The charges failed because it was impossible to prove any one individual responsible enough," he said.

### **Paul Slater, First International**

Paul Slater, chief executive of maritime finance consultancy First International, defined image as the concept of something held by the public as interpreted by the mass media. "I think this sums up our problem and we definitely have one," he said.

"Image is not necessarily what you project - it is the way people perceive it. The image you want is not always the one you get. But in shipping today, the image people have is probably the one they deserve."

"The industry has rare voyages into the outside world - usually only of a defensive nature. The image that I see of the moment is that our industry is still run by millionaire egoists, funding extravagant lifestyles, by running cheap ships and having no care for the marine environment. I find that to be an extremely negative opinion."

"I think lots of shipowners are out of touch with anything apart from the financial pile they are accumulating. "Where are they - we never see them."

"Tanker shipping is an invisible industry. Our industry only casts shadows. We want the shadow to disappear so the industry can be seen in its true light."

Better accountability is the first way that the maritime industry can improve its image, he said; this should start from shipyards, which typically guarantee a ship for just one year when it is expected to last for 25.

"We should try to position ourselves as a service / logistics industry rather than an infrastructure industry. In today's globalised world, logistics has become a much more fashionable word than shipping and world haulage."

Mr Slater cited the loss of professional pride seafarers have, partly because communications have moved much of their power about how the vessel is run onto the shore. "Shipping companies don't have to trust the master so much - they can make decisions in their own offices."

All of this translates into a reduced appeal of the seafaring profession, and seafaring being regarded as a short-term option.

"The industry needs to have a vision - where it would like to end up in the next decade. We have to change our thinking. We need to make people feel good about

the industry," he said. "The case for revolution in this 21st century for shipping is strong."

### **Björn Sodahl**

Björn Sodahl, safety manager of Concordia Maritime, talked about his company's V-MAX and P-MAX tankers, which for a 10-20 per cent increase in capital investment lead to enormous reductions of risk.

Mr Sodahl calculated that capital investment equates to about 30 per cent of the operating cost of ships; the total transport cost is about 1 per cent of petrol retail price; this means that the increase in capital expenditure works out at about 0.06 per cent of the price, so at \$2 a gallon, it works out at 0.1 cents a gallon, which can lead to a potential savings of billions in avoided losses.

Furthermore, if the industry operated more tankers like the V-MAX and P-MAX, its image would improve, leading to all kinds of other benefits. "You might ask - why are there not more vessels like this," he said.

"We are not suggesting that all ships should be like this, but just apply it where it is most appropriate, for example ships in sensitive sea areas."

"If you are going to transport large amounts of oil through sensitive waterways, why not do it in a responsive manner."

Mr Sodahl said that in order to improve its image, shipping needs to be proactive not reactive, focus on performance not prescription, innovation not compliance, and transparency not obscurity.

The asset play sector of the tanker industry does not do it any favours, he said. "One reason shipping is tarnished is because there is an element that sees what they are doing as speculation and not a service," he said.

"The way to change the perception of shipping is to say to customers, 'I want to serve you,'" he said. "Otherwise you're just trying to make money at someone else's expense."

Mr Sodahl noted that the V-MAX and P-MAX tankers have two separate fuel supplies and two separate engines, so if there is a problem with one fuel (for example containing an impurity which clogs up the engine) the other one will carry on going. Dimitris Lyras, director of Lyras Shipping, commented that shipping company clearly mitigating risk "is not something the oil company can ignore."

"An oil company carrying oil significantly more risk prone than others is not doing the best for the customer," he said.

### **Andrew Craig-Bennett**

Maritime commentator Andrew Craig-Bennett said that the problem was not that the media does not understand shipping - it is the general public. "They don't like us and don't try to understand us," he said.

Mr Craig-Bennett blamed part of this problem on the way the industry operates, with technical departments of shipping companies always attacking each other. "We seldom lose a chance to crow over the misfortunes of others," he said. "Not to the press but to each other. No wonder the public doesn't care for us."

In its relationship with the media, the maritime industry's approach too often is just to feed people lies and expect them to believe it. "Telling half truths alienates not the media, which can see through them, but the public," he said.

When the industry points out that it is not the only polluter of the seas, and oil spills have been much reduced over the past few years, it is like saying "I'm not the only person who beats my wife and I only beat her on Sundays," he said.

### **Nick Brown**

Nick Brown, with maritime public relations consultants MTI Network, said that one of the problems with the industry is its poor response to the industry outcry after any accident.

"One of the many problems is that there is no public face," he said. "With the Prestige, would things have been different if someone from the owners and managers had stood up and explained the situation? People said the ship was like a Gruyere cheese - there was no response from the owner."

"We need to be seen to be responsible, safe and transparent," he said. "Dealing with the media is not an option."

"People are completely reliant on oil," he said. "But there's no connection between filling their cars and the potential accidents at sea."

Mr Brown cited a recent case where there was an oil spill in Sydney Harbour; the Sydney Opera House was evacuated mid performance, with the local governor on the television wearing a dinner jacket saying that he would find the people responsible and punish them.

The response of Shipmanagers V.Ships, advised by MTI Network, was to immediately record an apology on video by Roberto Giorgi, then the person in charge of the vessel operations (now CEO), and send it to Sydney television stations by satellite; it also posted notices around the harbour explaining how people could obtain compensation. The result of this was that local journalists had very little to say. "The story immediately calmed down - all the heat went out of it," he said. "And they were only doing the right thing."

"Media pressure can be intense and it's not that easy to deal with. But people accept that accidents happen. What they won't accept is that you and your company haven't done everything possible to prevent them."

Sticking your head in the sand, will just encourage journalists to go on a witch hunt to find you, something they love.

Mr Brown said that the actions of the Spanish government, imprisoning the master of the Prestige, has led to repercussions with the Tasman Spirit case in Pakistan, where MTI Network is working for the American Club, the vessel's P+I Club.

When asked about the rights and wrongs of imprisoning seafarers, one response from the Pakistani authorities was "it's not just us, look in Spain, its happening there too," Mr Brown said.

One way to improve the industry's image is by having better, committed staff, people who are happy to go in front of television cameras and explain how the industry works. "The industry is still in trial," he said. "The less you have to hide the easier it is to say sorry."

## **Univan**

Mr AK Jha, general manager, technical, Univan Ship Management, talked about how difficult safety is to achieve from a management perspective. "In the last 30 years of our company, safety has proved to be one of the most difficult and elastic of our management objectives," he said. "Complete safety on a consistent basis is not easy to achieve.

"I don't think we can ever see 100 per cent safety. Total accident prevention - is not a particularly helpful or sustainable basis - apart from avoiding fatalities. "

Mr Jha said that accidents are extremely bad for business; and besides, shipping companies do not have any choice about installing a safety management system since it is needed to comply with regulations.

Univan's risk control strategy looks at ways to prevent accidents and procedures to stop minor accidents escalating into something more serious.

Since human error is involved in most accidents, including 83 per cent of collisions, 75 per cent of property damage and 54 per cent of pollution incidents, Mr Jha said (quoting figures from the UK P+I Club), training is very important.

"Training is the only way to reduce such incidents and continuous training is important," he said. "You need a sound and frequently evaluated training".

## **Paying for quality**

Paul Slater, chief executive of First International, compared the spot and time charter markets. "There is a fundamental difference between the spot and time charter markets in their attitude to quality," he said. "It is perhaps like love and sex."

"Today's tanker industry is dominated by the spot market. Quality is not measured in the spot market. The charter rate is a measure of the market and rarely will the quality of a ship enter the negotiations. Lots of tanker operators are really not interested in providing a quality service."

In the time charter market by comparison, oil companies are often inclined to pay extra for quality ships with good service, as evidenced by the recent time charter contract between Total Fina Elf and Concordia Maritime for its P-MAX extra high specification product tankers currently under construction.

Peter Swift, managing director of Intertanko, said he did believe that oil companies take quality into consideration on the spot market.

"The reality is that certain ships operate in certain sectors and certain markets," he said. "The oil companies are conscious of that. Oil companies do a risk assessment in many cases, looking at the risks they are exposed to on a particular voyage, and determine the suitability of the vessels. There is a risk differentiation factor."

Paul Slater raised the issue that in today's highly priced tanker market, there isn't a single ship in the world which is not employed; since we all know that substandard shipping exists, that leads to the question of who is employing them.

Björn Sodahl of Concordia Maritime said he thought one of the main incentives to shipping quality was companies protecting and building their consumer brand names; although much oil is handled by traders with no brand names, not oil companies, 80 per cent of terminals are owned by oil majors and virtually oil related-products end up being sold to consumers under a brand name. "Somewhere along the line there is a brand name exposed to consumers," he said.

Paul Slater said that another incentive for quality is that quality shipowners will look much better in a lawsuit, for example after an accident.

"In a lawsuit, can you stand up and demonstrate that you have done everything possible to maintain safety?" he asked.

The secretive nature of the maritime industry is not very helpful in encouraging quality shipping, he said. "The industry is the most opaque in the world except when it wants to be transparent, which is normally only in the interests of personal glory."

Mr Slater called on class societies to do more to demand higher quality shipping, like in the aviation industry.

"You could not take an aeroplane out of Heathrow today if there was a single deficiency," he said. "I don't think class thinks about quality enough. Class societies - you need to lift the bar. Maybe liability is the key to doing this."

## **Fred Venner**

Fred Venner, product manager, tankers, Bureau Veritas, talked about a Bureau Veritas scheme to monitor shipping company's maintenance plans, check they are adequate and check they are being implemented.

There are always rumours circulating around the industry of reputable shipowners going slow on maintenance because they intend to sell a ship shortly and know that any maintenance performed on it will not affect the sale price. But maintenance has a direct bearing on reliability and safety.

Bureau Veritas has a voluntary notation which shipowners can subscribe to, obtaining a certificate from BV if they have a keep the ship well maintained. The system is currently used on 50 vessels, out of the 6,000 classed by BV.

"What we are suggesting is - to help an owner determine if his maintenance is adequate and then look at his plans to see," he said.

The class society takes an active role in development of the maintenance plans, conducting sophisticated analysis of the ship to check that the maintenance is

adequate and performing a risk analysis. BV can make sure that the shipping companies is not spending too much on maintenance.

The shipowner is audited to make sure he is following the plans.

"The same techniques have been applied in the aircraft industry for many years," he said.

"Owners, particularly owners / operators, are under tremendous pressure to prove that everything possible is being done to ensure ships are safe. The notation can provide the necessary evidence that the owner is carrying out maintenance.

Rajaish Bajpae, managing director of Eurasia, disagreed that class societies should get involved in assessing ship maintenance. "If you class maintenance, you should also class seaworthiness," he said. "Only the master can class seaworthiness."

Jan Fransen of Green Award said, "I personally believe the idea very much - we have to go the way of aircraft."

Paul Slater of First International said he thought that class should take steps towards being a total certifying body for the entire ship - but he could not see that this is a step in that direction, since it leaves all the liability for maintenance in the hands of the shipowner.

Peter Raes, general manager of Tecto Marine, said that this still came down to creating and checking procedures, not checking the ship itself. "Everybody is monitoring procedures," he said. "Vetting is checking procedures. What is vetting doing in the oil room looking at the oil leaks."

"There is too much weight on one person, the surveyor on the ship," he said. "The whole thing comes down to the class surveyor."

Mr Raes said that the system still requires a large degree of trust. "Trust is good but control is better," he said.

Mr Venner responded that class societies are the only organisations in the world able to offer such services, because they have the most knowledge about which equipment is most likely to fail, built up in large databases. However he thought that legally the only organisations able to declare a ship 'seaworthy' would be flag states.

### **Captain Seth**

Capt Jitender K Seth, marine manager, International Tanker Management (ITM), talked about his organisation's risk assessment strategy.

"We need to give our clients assurance that the assets they put in our hands are safe," he said. "We need to give assurance that we effectively manage the risks. We need to constantly align ourselves with the expectations of the industry."

"Developing the risk target is the key to it," he said. "What level of risks are you prepared to look at?"

Media impact is very important to a shipmanager, he said. "Shipmanagers only have reputations to sell - an important area is how the media look on them. This also includes the environment as well."

### **Transparency and technology**

Patrick Slesinger, chief information officer of Wallem Shipmanagement, talked about a tool developed by Wallem, TransparentSea, together with the Liberian International Ship & Corporate Registry (LISCR) to help inspectors share their reports over the internet.

One of the biggest motivators for the project was enabling the report readers to be subjective, by providing more information in the report, in terms of photographs and videos.

Assessing the condition of ships generally involves a degree of subjectivity - but instead of the traditional method, where the inspector on the ship makes a subjective judgement which goes into the report, the inspector can put photographs and videos into the report of the damage, so the reader can make a limited subjective judgement about it as well.

"If you have a photo, you can re-evaluate a subjective statement made by a surveyor," he said.

Other issues were making reports in Adobe PDF which were easier to produce, distribute and make available, which were also tamper proof; you can't rip pages out of them, or rip photographs out of them, before you pass them on. Anyone changing them must have a digital signature, and the report records exactly who changed what.

With online reporting data can be presented in different ways, showing how indices have changed over the lifecycle of the ship for example, not just a snapshot when the inspection was made. You could also ask to see all the "hotspots" [areas of concern] on the ship displayed on a diagram.

"Yesterday's reports had a single copy produced on paper, they were distributed by couriers, there was no tamper protection, they were of high cost and could only be reproduced by photocopying," he said. "This cuts down the time to make reports by 80 per cent."

All this leads to increased transparency and accountability.

The tool has functionality that can reduce the resolution of photos in reports which are sent from the ship by satellite, then sending the report with a full resolution photographs when a fast internet connection is available or a CD-ROM can be sent in the post.

Andrew Craig-Bennett, chairman, said he had heard that the latest piracy trick was to pull up beside a ship in an official looking launch, ask for the ship's papers and demand \$10,000 to give them back. "If the papers were electronic, then it wouldn't matter," he said.

Peter Kidman, lead of LISCR's London office, talked about transparency issues from the perspective of an open ship registry.

"Flag and class have to work very closely together," he said. "Exchange of information must benefit the public interest. I'm not so sure that nationality is a big issue these days."

"Shipping has historically been a very open industry. We talk about rights of the seas and so on. We are now moving more into a period of openness - ships are required to carry automatic identification systems."

Dimitris Lyras, with Lyras Shipping, commented that the reason shipping companies are not transparent is because they get rewarded by it - it is generally better the less people know about your business.

"If transparency is rewarded there will be more transparency," he said. "The barrier to transparency is the incentive to be more transparent, which isn't there yet."

## **Business**

### **Anthony Zolotas**

Anthony Zolotas, ship financiers Eurofin, said that in general, ship financing is not rocket science - the only factors being the asset, the cashflow and the borrowing. However tankers add a new dimension to the financing equation because "they spill oil and are in the public eye," he said.

Tanker shipping has historically made more money than bulk shipping, he said.

The problem is that banks do not have enough understanding of the shipping business. Money is readily available for top standard public companies such as Teekay, but harder for other players with less public names.

Banks look for different ways to come to terms with the complexities of tanker financing, he said. "Some banks think you can make up for lack of experience through analysis," he said. "Too much analysis is paralysis. You get lost in detail."

"Tanker owners need a bank with a high level of shipping knowledge, a clear and flexible shipping policy, which are committed to the industry with imagination."

## **Simon Toyne**

Simon Toyne with Hess Energy Trading Company, talked about how the amount of tanker freight derivatives trading has grown by 500 per cent in the past 12 months and is set for further huge growth.

From the tanker operator's perspective, freight futures can be used to help manage risk. You agree with the charterer and freight hedger to provide freight for a specific price at a future point in time - since you know how much it will cost to operate the vessel, you can be more certain of your margins.

Then leave it up to the City to take the gamble of what the freight price will actually do. If it goes above the agreed price, the traders will make a profit; if it goes below, they will make a loss. You still get the price you agreed.

These "futures," as they are known, are traded based on indices published by The Baltic Exchange, showing how freight rates change over time for different ships on different routes. You use one of these indices, which is the closest possible to the voyage being discussed, as the basis for the transaction.

Trading in oil, making gambles about whether the value of the oil will go up or down whilst in your possession, is big business for the City with each tanker cargo being traded on average ten times during the shipment.

Mr Toyne would dearly like to see the shipping being traded just as much - in contrast, the value of trading tanker shipping futures is currently just a tenth of the value of all tanker shipping.

"A regulated shipping futures market is going to explode," he said. "It will take less than 2 years. The growth will astonish you. Shipowners should look at it and see how it can appease your cashflow."

## **Bunkers**

Jakob Ellehaug Sode, hedging manager, O.W. Supply & Trading A/S, talked about how his company as a bunker trader has traditionally hedged its own risks of bunker prices going up and down and is now passing these services onto its clients.

Bunker hedging, from the point of view of the tanker operator, is agreeing to receive an agreed amount of bunkers at an agreed date in the future at an agreed price, with a trader taking on the risk that the price will change.

The trader loses money if the price of bunkers goes above the agreed price (because you still have to receive the bunkers at the agreed price) and makes money if the price goes below the agreed price (because he can buy the bunkers cheaper than he sells them to you).

"You hedge you want protection against risks, stabilise your earnings and cashflow," he said.

"Vessels typically burn 30,000 tons of fuel a year," he said. "The change in fuel price accounts for 29 per cent of the variation in the freight rate."

Nigel Draffin with EA Gibsons talked about how and why tanker operators and bunker suppliers can improve their relationships.

"For many people the bunker industry is seen as a refuge of scoundrels," he said.

"People see the bunker barge as an instrument of extortion."

"Shipowners want to know, why can't the supplier be waiting for me when the ship arrives, why do I have to pay cancellation fees," he said.

"What puzzles suppliers - why do ships change their requirements at the last minute, why won't ships have standard connections, why won't shipowners accept barge quality."

"The bunker industry performs a vital function," he said. "It provides a source of credit for owners. The physically deliveries are performed from the buyer and the seller. 98 per cent of transactions are free from dispute."

"If sellers cannot trust buyers, they won't give them credit," he said. "Without credit it all collapses. Trust will also help you resolve disputes."

Most disputes between shipowners and bunker suppliers are related to the quantity of bunkers supplied, with a lesser number being related to the quality of the bunkers. Some are related to damage to the ship made by the bunker barge.

The International Bunker Industries Association, he said, draws up standards and codes of practise for bunker suppliers, trying to get everybody "talking the same language" and building trust by promoting ethics.

Both suppliers and shipowners would benefit from knowing more about how each other's businesses work, and look for practical solutions to resolve disputes.

The best way to develop trust is through ethical behaviour, he said, and having trust means that rational solutions to problems can be worked out.

***Presentations and other press reports can be downloaded free from the Tanker Operator website [www.tankeroperator.com](http://www.tankeroperator.com)***