

UK P&I CLUB



UKDC  
UK DEFENCE CLUB

# HELLAS HIGHLIGHTS

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UK P&I AND  
UKDC ARE  
MANAGED  
BY **THOMAS  
MILLER**

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## HIGHLIGHTS

# INTRODUCTION

With this being the first Highlights of the 2015 Policy year, it seems right to have a look at how both UK P&I and UK Defence did at this renewal. Both Clubs had a very positive renewal result. We are delighted by the interest shown in the Clubs, which was reflected in the 6.1 million gross tons of new business that came into the UK Club during this renewal and the addition of 4.8 million gross tons on a net basis for the UK Defence Club.

For UK Defence the 0% General Increase and the introduction of Continuity Credits shows that the Board's commitment to reward Members is already having a positive impact on the Club and helped achieve this strong result.

The levels of new business which the Managers have been shown was significantly more than in previous years. For the UK Club combined mutual owned and chartered tonnage now stands at over 225 million gross tons, an increase of over 3% from 20th February 2014 – 20th February 2015.

As always, we welcome any feedback on Hellas Highlights and invite you to recommend any future topics that may be of interest.

I should also mention that the UKP&I Club will be hosting a reception for Members and Brokers on 11th May 2015 in Athens. More details on this shortly.

**Daniel Evans**  
Regional Director  
and Club Manager

**Highlights is a periodical newsletter from the Thomas Miller Hellas Team.**

It covers the latest news and events from the region as well as topical issues affecting our Members.

If you have any suggestions for future issues, please send your comments and ideas to Anna Lagos at [anna.lagos@thomasmiller.com](mailto:anna.lagos@thomasmiller.com)

# SELF ASSESSMENT

The Club's new Self-Assessment scheme is designed to help the Club's shipowner Members take a more hands-on role in identifying and controlling the risk of accidents on their ships. The scheme works utilising the Club's historical claims data and expertise. Club risk assessor, David Nichol, provides the background to the scheme and how it will work in practice for participating Members.

For more than 25 years, the Club has been analysing claims data for the purpose of identifying what types of claims are occurring, their frequency, cost and crucially, how they are being caused. This has enabled the Club to provide information and advice to Members and Club staff on what is going wrong, the financial and human impact of claims and what can be done to prevent them. In practical terms, this transfer of knowledge has traditionally taken the form of providing advice on current claims trends and shipping related risks by means of loss prevention bulletins, brochures, posters, videos and seminars hosted by the Club.

The Club has also placed a high priority on assisting Members in getting the loss prevention message across to the sharp end, meaning ship's crews and operations staff, so that all concerned both at sea and ashore have a common stake in developing safer working practices and minimising claims. In the context of mutual P&I insurance it follows that a reduction in claims will directly influence Members level of premiums.

During this period, the Club has also employed a team of experienced master mariners and chief engineers tasked with visiting hundreds of entered ships every year at various busy ports around the world. The feedback provided by these in-house "ship inspectors" has proven a valuable resource in gauging the quality of entered tonnage with the added benefit of giving ship's crews direct exposure to the Club and to enable an exchange of current loss prevention knowledge and concerns.

### Ship Inspectors to Risk Assessors

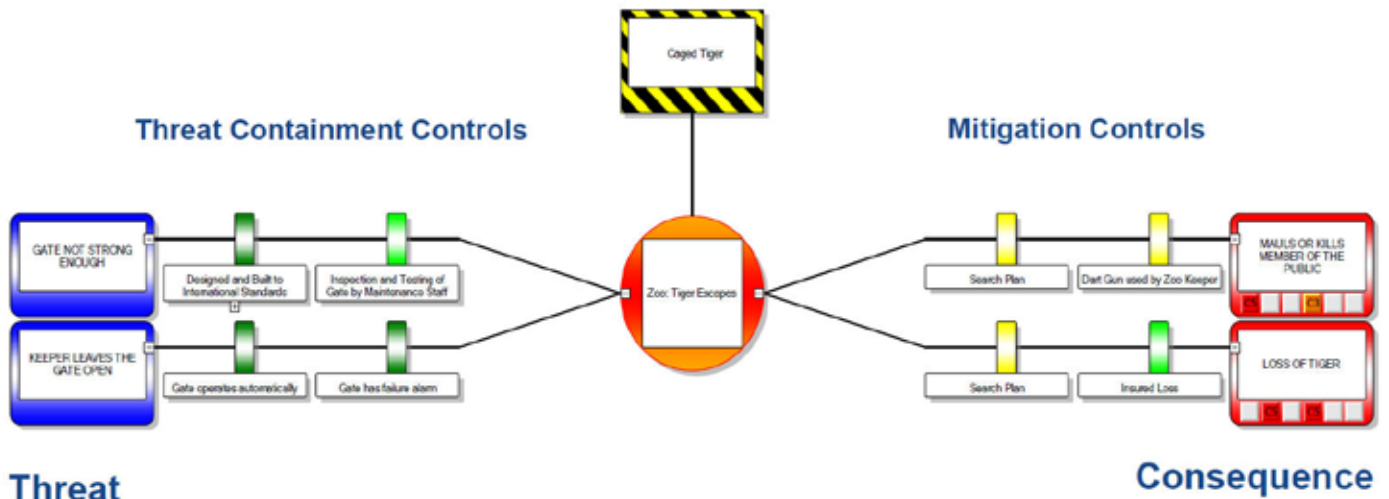
However, following the implementation of the ISM Code, progressively more stringent regulation across

the shipping industry and increased scrutiny of ships by way of Port State Control and commercial inspections, the Club recognised the need to shift the focus of ship visits from mere rule compliance and technical ship condition to a more risk based approach with an emphasis on claims reduction. In other words, rather than duplicate effort, the ship visits are less about "nuts and bolts" type inspections and more about assessing shipboard safety management systems and risks which may result in claims. Club inspectors were likewise re-titled "risk assessors" to reflect their changing role.

### RISK = FREQUENCY x CONSEQUENCE

Over the past 4 years a new and innovative claims-centric approach to assessing risk has been developed by the Club's risk assessors working, in conjunction with our claims executives and underwriters. By analysing more than 12,000 serious claims over a 20 year period and using the formula  $RISK = FREQUENCY \times CONSEQUENCE$ , the Club has identified many of the Hazards, Threats and Controlling factors which have been seen to both cause and prevent claims. The hazard categories relate to P&I risks; cargo, pollution, personal injury, collision and third party property damage and drawing on the experience of Club staff and in depth claims analysis. The Club has identified 75 threat areas which could develop into an incident and some 450 controls which may reduce the likelihood of those threats causing an incident.

Similarly, those controls which may assist in mitigating the consequences and cost of an incident, by means of an appropriate response and good record keeping after the event, are also identified.



The methodology can best be illustrated by the “Bowtie” diagram above.

The system has been developed in a way that enables the different Hazard category risks to be rated using a scoring system applied to the individual controls thus providing a more scientific approach to claims control and prevention. The progressive use of the system on board Members’ ships has identified trends and benchmarks, which may be used to assist Members in developing a more focussed approach to their own safety systems. As the old saying goes, “you can’t manage what you can’t measure”.

### A Scientific Approach

The risk assessment system has been very well received by ship’s crews, who are able to benefit from advice provided by the risk assessors and also by shore technical staff for whom the system provides a very useful risk comparison tool across the fleet. Therefore, in order to be able to share the system more widely than has been possible to date, the Club managers have decided to modify the system in such a way that Members will be able to use it themselves.

Using the above basic principles, the role of the assessor will typically be taken by a superintendent or appointed crew members, who are guided through a simple procedure to identify the threats which could cause a P&I incident and measure the effectiveness of the controls which are in place. Using the simple scoring system, the self-assessment can provide a valuable means of methodically identifying what threats are at an elevated risk of causing an incident and to show where related controls need to be improved.

### Self-Assessment Kit

Participating Members will be provided with a “self-assessment kit” containing the necessary guidance, methodology and checklists, in booklet form, to enable the risk assessment to be performed by the designated crew

of shore staff. On completion of the self-assessment, the booklets can be returned to the Club, where scores can be computed, confidentially compared with a Club benchmark, turned into a formal risk assessment report and returned to the Member for use in their own risk assessment process. If desired, the report findings may be discussed with the Club’s claims and/or loss prevention specialists to obtain any further advice. Obviously, for the scheme to be effective it will be necessary for those conducting the assessments to apply an objective and honest approach to the whole process.

Members may also request the attendance of one of the Club risk assessors on board to conduct a subsequent independent assessment should the ships visit a port where an assessor happens to be located. A risk profile can then be produced to assess the progress that has been made in improving on-board risk controls.

It is envisaged that where a Member’s self-assessment and an assessment conducted by the Club (gap analysis) reveals little difference in risk scores, there could be a reduction in the Club mandatory surveys required of that ship. This will also depend upon the Member’s claims experience, agreement with the Managers and continued submission of regular self assessments.

The scheme has initially been made available to 20 Members on a first come, first served basis, with use expanded to the wider Membership as the system is developed. It is emphasised that this new self-assessment scheme is entirely voluntary and provided free of charge to participating Members.

**The Club hopes that this innovative additional service will provide those Members taking part with a practical and simple means of using the Clubs historical claims data and in-house expertise to improve safety on board their ships and to reduce claims.**

# LOSS PREVENTION



# BUNKER ISSUES

## **Senior Claims Executive, Cedric Chatteley discusses avoiding quantity disputed between ships and bunkers suppliers.**

In April 2014 the Maritime Port Authority of Singapore announced that as of 2017 it will be mandatory to use a mass flow metering system for marine fuel oil bunkering in Singapore. The purpose of the mass flow meter is to measure the quantity of bunkers which have been delivered and to avoid quantity disputes between ships and bunker suppliers. The authorities are taking these steps to safeguard Singapore's reputation as a top bunkering port in the world.

Until mass flow meters are compulsory in Singapore, it is therefore important to make sure that the chief engineer takes the necessary steps and precautions before, during and after delivery to ensure no air is introduced in to the bunkers. For further details of these measures, the UK P&I Club published a Loss Prevention Bulletin which was also produced by way of a leaflet prepared by Chris Fisher from Bunker Claims International a division of Brookes Bell.

A copy of the bulletin is available as a pdf on our website at the following link:

**<http://www.ukpandi.com/knowledge/article/826-05-12-cappuccino-bunkers-singapore-5365/>**

In anticipation of the Singapore regulations, the Club understands that a number of bunker suppliers are already using mass flow meters in Singapore. Although these suppliers might be more expensive, perhaps it is worth considering appointing them to avoid quantity disputes. In addition, and when it comes to choosing a supplier, the Singapore Port Authority has a list of accredited bunkers suppliers on its website. This list is closely monitored by the Singapore Port Authority as demonstrated by its recent decision to withdraw the licence of a supplier following the discovery of irregularities and wrongful declarations.

Owners and operators should be aware that, unlike Mass Flow Meters, normal flow meters will not detect the air introduced in the system and offer the appropriate protection against short delivery claims.

**Bunker contracts very often contain draconian terms which make it difficult to challenge the quantities declared by the suppliers. In view of this, the Club recommends that a surveyor is appointed as soon as a problem arises and if possible before the delivery receipt is signed.**



## The following precautions should be taken when the bunker barge arrives alongside the receiving ship;

1. Under the Singapore bunkering procedure safe access to and from the delivery barge is to be provided by the ship. This may comprise an accommodation ladder or pilot ladder or a combination of both. Safe access is important as a competent member of the ship's crew, preferably the Chief Engineer should attend on the barge to carry out measurement of all the barge tanks before the delivery starts. This should be done even if an independent Bunker Surveyor has been appointed.
  2. All barge tanks, including any tanks declared empty or not intended for this delivery, must be measured and the temperature of the contents established. This must also include any slop or waste oil tanks. The drafts of the barge should also be obtained. It is important that when these measurements have been made, the barge Master and Chief Engineer sign a record of these measurements.
  3. Opening of ullage hatches or tank hatches should provide an opportunity to observe any foam on the surface of the bunkers. Foam may also be detected on the ullage tape. If there is no foam then the oil level on the tape should appear distinct with no entrained bubbles. If by observation of the tape and the surface of the fuel you suspect entrained air then obtain a sample of the fuel by lowering a weighted bottle into the tank. Pour the sample into a clean glass jar and observe carefully for signs of foam or bubbles.
  4. If these observations show entrained air the Chief Engineer should not allow the bunkering to start and contact his head office immediately. If the fuel is being provided by a charterer then they need to be made aware of the problem. Owners and/or charterers should then request for an investigation by an independent Bunker Surveyor. The barge Master should be issued with a letter of protest and a copy sent to the ship's agent. If the barge Master decides to disconnect from the ship and go to another location then the agent should immediately inform the port authority and try to establish where the barge has gone. All relevant times and facts should be recorded in the deck log book.
- ### Before delivery starts
5. The Chief Engineer should discuss with the barge Master which barge tanks will be discharged during the bunkering and check that the quantity held in these tanks is consistent with the quantity to be delivered and that on the bunker delivery receipt.
  6. If the Chief Engineer has not observed any entrained air during the initial barge survey it is still possible that air can be introduced to the barge tanks or the delivery line during the pumping period. The Singapore Bunkering Procedure SS 600 prohibits the use of compressed air, from bottles or compressors during the pumping period or during stripping and line clearing. It should be confirmed with the barge Master that he will follow this procedure (Reference SS600 paragraphs 1.12.10/11/12/13). Stripping of barge tanks can also introduce air and stripping should only be performed at the end of the delivery for a short period of time. The barge Master must agree to inform the Chief Engineer when he intends to start stripping and when it has been completed.
  7. It is important that the Chief Engineer measures and records the contents of all his bunker tanks before the delivery starts and if an independent surveyor is attending he should be asked to verify this record.



### During the delivery

8. Ship's crew need to be alert during bunkering and check for the following signs:
  - Bunker hose jerking or whipping around.
  - Gurgling sound when standing in vicinity of bunker manifold.
  - Fluctuations of pressure indication on manifold pressure gauge.
  - Unusual noises from the bunker barge.
  - Excessive bubbles observed on the sounding tape while taking sounding of bunkers in the ship's tanks.
9. These observations suggest that air is being introduced into the bunkers and the Chief Engineer should request the barge Master to stop the pumping operation. The Owner's office and/or the charterer need to be advised. The Chief Engineer should attend on the barge again to take measurements and record the contents of all the tanks and obtain the signature of the barge Master on this record. The contents of all the ship's bunker tanks need to be recorded. A letter of protest should be issued to the barge and the ship's agent advised. All pertinent details should be recorded in the ship's deck log book.
10. If the delivery is suspended for the above reason an independent surveyor should be appointed by Owners or Charterers to evaluate the situation and the agent should inform the port authority.
11. The bunker receipt should not be signed and no agreement reached with the barge Master on the quantity discharged or received. This should be checked and verified by an independent surveyor. Again, if the barge departs then the time of departure needs to be recorded and the ship's agent advised.

### After the delivery

12. Assuming that the delivery has been completed without incident the Chief Engineer should then re-measure ALL the barge tanks and perform calculations, using the approved barge calibration tables and the appropriate petroleum tables to establish the quantity discharged by the barge. He would also measure his bunker tanks and calculate the quantity received.
13. The barge outturn quantity should be similar to the ships received quantity.
14. If there is a significant difference (more than a few tons) between the barge outturn and the ships received figures then the Chief Engineer should repeat the measurements of the barge and ship tanks.
15. If the difference between ships received figures and barge figures is significant and this cannot be explained or resolved then Owners and Charterers should be informed and they should appoint an independent surveyor.
16. As a further check it would be prudent to re-measure ALL the ship's bunker tank contents about 12 hours after the delivery to check for any apparent loss, but remember it would be very difficult to resolve any differences after the Chief Engineer has signed the bunker delivery receipt.

*Extracted from the book by Chris Fisher: Bunkers: An Analysis of the Practical, Technical and Legal Issues and is reproduced with kind consent of the author.*



# A BRIEF OVERVIEW ON THE PHILIPPINE LEGAL SYSTEM

**Eleni Nomikou explains the Philippine legal system**

There are more than 400,000 Filipino seafarers deployed overseas, representing roughly 35-40% of the world's mariners. Naturally it is inevitable that many cases of seafarer illness or injury result in claims being submitted for arbitration before the labour courts of the Philippines, namely the National Labour Relations Commission (NLRC) or the voluntary arbitrator or panel of voluntary arbitrators.

## 1. The National Labour Relations Commission (NLRC)

The NLRC is a two level court holding original and exclusive jurisdiction for all labour cases since the enforcement of the Migrants Workers and Overseas Filipinos Act of 1995. The cases are heard by a Labour Arbiter in the first instance and the NLRC level is the competent forum for hearing the appeals against the decisions issued by the Labour Arbiter.

The NLRC is not a part of the regular judicial pillar. It is an independent labour body within the Executive Branch with quasi-judicial powers to hear and resolve monetary disputes arising from employment relationships. As per the NLRC Rules of Procedure, proceedings before the Labour Arbiters are not litigious in nature, therefore the regular courts' procedural rules apply only by analogy.

At the initial stage of proceedings, the parties are required to present to the Single Entry Approach (SEnA) conference. The SEnA is a relatively new mediation procedure implemented in labour courts. The parties do not need to be represented by lawyers at this stage. The primary aim of this 30-day mandatory conciliation-mediation period is to encourage amicable settlement of the dispute between the Complainant and Respondent without getting into the merits of the case.

In the vast majority of the cases a settlement agreement is not achieved. The Complainants have then the option to pursue their claim by filing a formal Complaint with the NLRC and the same will be assigned to a Labour Arbiter for proper proceedings. This constitutes the formal initiation of the legal proceedings.

The parties file their respective Position Papers presenting

their arguments and submitting supporting documents for the Labour Arbiter's consideration. Thereafter, Replies are submitted to rebut the opponents' arguments. Finally, Rejoinders may be submitted, if necessary. Such pleadings are filed on specific dates set in advance by the Labour Arbiter or on the dates agreed upon by the parties.

Following the issuance of the Labour Arbiter's decision, either party may elevate the case to the NLRC level by way of appeal within 10 days from the receipt of the decision. However, if the Appellant is the employer, the latter must put in place an appeal bond, in the form of surety or cash, which

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**In the vast majority of cases a settlement agreement is not achieved.**

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can be provided by a local authorised insurance company in return for suitable counter security. The purpose of posting a bond is to secure the total amount adjudged to the seafarer with the first instance decision.

The appeal takes the form of a Memorandum of Appeal. The decision of the NLRC becomes final and executory after the lapse of 10 calendar days from the receipt of the written decision, unless either party files a Motion for Reconsideration within 10 days from the receipt of the decision. It is to be noted that it is highly unlikely for the resolution delivered to be overturned by way of a Motion for Reconsideration, as the latter is being heard before the same Commissioners who issued the decision that is being questioned with said Motion. However, the Motion, at

the very least, adds one more step before the Claimant can proceed to the enforcement of the decision against the losing party by filing a Motion for the Issuance of a Writ of Execution.

## 2. The National Conciliation and Mediation Board (NCMB)

The NCMB administers the Voluntary Arbitration Program via a grievance procedure. A grievance is a labour dispute between any party of such dispute on the interpretation or application of the applicable Collective Bargaining Agreement (CBA) or any claim arising from the alleged violation of any provision of the CBA. If such dispute remains unresolved after exhausting the grievance machinery, it shall automatically be referred to voluntary arbitration described in the CBA. The decision issued by the voluntary arbitrator is immediately final and executory.

## 3. The Court of Appeals

Although the NLRC and voluntary arbitrator's decisions are deemed final and executory, the losing party can nevertheless elevate the case to the civil courts (i.e. the case is moved to the actual judicial pillar) by filing a special civil action called Petition for Certiorari (request for Judicial Review) with the Court of Appeals against the NLRC's decision within 60 days from receiving the decision on the Motion for Reconsideration. Strictly speaking this is not an appeal as it is at the discretion of the Court of Appeals to hear/review the case on the basis that the NLRC acted without or in excess of their jurisdiction, or with grave abuse of discretion amounting to lack or excess of jurisdiction. The case is now turned to a civil rather than a labour one. Incidentally, voluntary arbitrator's decision can also be elevated to the Court of Appeals via a Petition for Review within



## A BRIEF OVERVIEW ON THE PHILIPPINE LEGAL SYSTEM (continued)

15 days from the denial of the Motion for Reconsideration by the voluntary arbitrator.

After the hearing of the case by the Court of Appeals and issuance of their decision, the losing party can file a Motion for Reconsideration with the same Court. Further recourse may be sought by the losing party by further appeal to the Supreme Court by way of a Petition for Review on Certiorari. This final decision issued by the Supreme Court (subject to any Motion for Reconsideration filed) brings the matter to conclusion and becomes part of Philippine jurisprudence.

### 4. Execution

In an attempt to delay/stop the issuance of the Writ of Execution issued by the labour courts, Owners may file the Petition for Certiorari, if decided by the NLRC, or Petition for Review for cases decided by voluntary arbitrators, with Prayer for Temporary Restraining Order with the Court of Appeals in the hope of obtaining a Temporary Restraining Order to prevent the labour courts from granting the Complainant's Motion For Issuance of Writ of Execution. A supplementary benefit in appealing the NLR's or voluntary arbitrator's decision it

is that gives some time for further negotiation on settlement of the claim, if appropriate.

### 5. Garnishment

Garnishment constitutes the enforcement of the NLRC's final decision to the successful Complainant, regardless of any pending Appeal made by the opposing party. Understandably, garnishment represents a frustrating problem for losing parties. Furthermore, restitution has proved problematic as there are not sufficient legal provisions in place to protect the Owners' funds garnished when an executory decision is, subsequently, successfully appealed and overturned resulting to the unjust enrichment of the seafarers.

### 6. Recommendations

- All illness / injury cases should be closely monitored and regular medical reports obtained following every examination. Our experience is that, in particular, knee, back and shoulder problems and amputations can result in protracted treatment and subsequent disability compensation payment.
- Under the current POEA Contract, an employer is only obliged to provide post repatriation benefits where the Company Designated

Physician (CDP) considers the illness / injury for which the seaman was repatriated to be work related. Accordingly, work relation should be established as soon as possible after repatriation, provided the CDP has made a firm diagnosis. Note that a seaman's employment may be governed by a CBA and may obligate Owners to provide medical benefits regardless of work relation.

- We recommend that Owners procure from the CDP a Private & Confidential report advising the prognosis of the patient and interim disability grading prior to 120 days of medical treatment. A further report confirming final disability grading before the 240 day treatment period is reached should also be obtained if the seaman's treatment is anticipated to go beyond this point. It would also be helpful if the CDP could be asked to advise (on a Private & Confidential basis) the seaman's prognosis for return to work at sea.
- Last, but not least, the Club correspondents can assist and ensure that the aforementioned recommendations are followed. They can also refer a crew member to one of their accredited clinics whose doctors maintain the required close reporting.

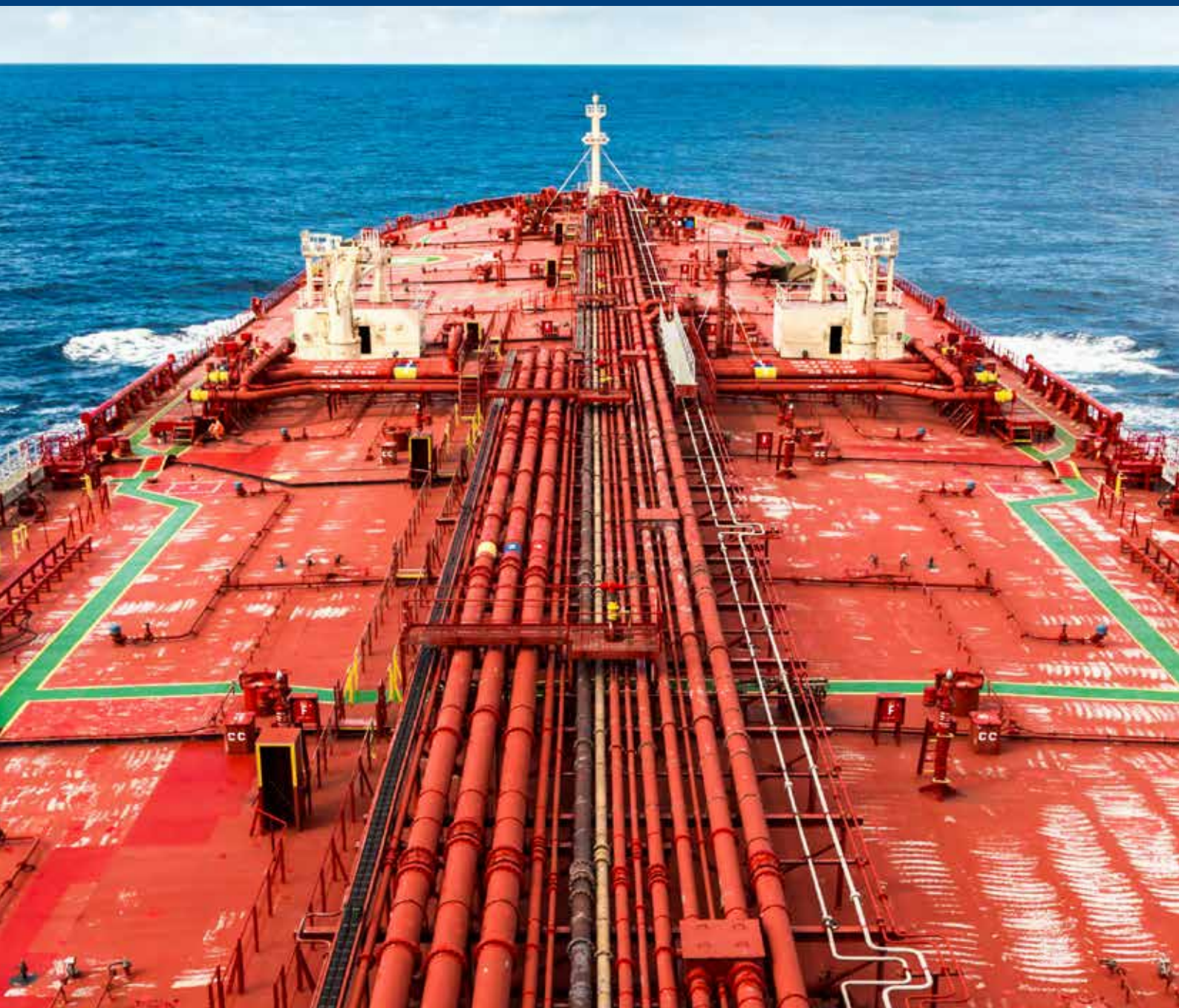


Court Level	no. of hours	Rate (US\$)
<b>NLRC level</b>		
Study of Facts/Law	4	\$600
Attendance to five conciliatory hearings	10	\$1,500
Preparation of Position Paper plus filing	8	\$1,200
Preparation of Reply plus filing	6	\$1,050
Preparation of Rejoinder plus filing	5	\$975
Memorandum on Appeal	10	\$1,500
Motion for Reconsideration	8	\$1,275
Attendance to three pre-execution conference	6	\$900
<b>Court of Appeals level</b>		
Petition for Certiorari	10	\$1,500
Attendance to two mediation hearings	4	\$600
Memorandum	8	\$1,500
Motion for Reconsideration	8	\$1,500
<b>Supreme Court level</b>		
Petition for Review on Certiorari	10	\$1,500
Motion for Reconsideration	8	\$1,500

*The above are rough estimates of the rates which may vary and the hours spent on a case may increase depending on the nature of the case and the seriousness, urgency or complexity of the issues involved.*

# HIDE & SELL

Alec Kyrle-Pope gives an economic analysis of floating storage.



**The practice of chartering vessels to be used as floating storage is not a new or particularly mysterious concept in the tanker business. Most offshore production operations will have one or two FPSOs or FSOs bobbing about and it is certainly not unheard of in conventional trades for a Charterer to ask a laden vessel en route to a discharge port to drift and await orders whilst the market oscillates and a cargo is sold afloat.**

**However, it takes a perfect storm of various oil market elements for the practice to become a widespread trend and commercial tonnage to be pulled out from normal circulation to sit fully laden at strategic locations across the globe for months on end.**

**The purpose of this article is to look at the phenomenon of floating storage, the economics behind it, its affect on conventional tanker markets and pose the question; are all the market ingredients currently present for a return to the floating storage epidemic of 2009?**

#### **A brief history lesson**

The last great floating storage play was back in 2008-2009. In early 2008, driven more by speculation than market fundamentals, the oil price had been shooting up over the course of the summer when the price per barrel for West Texas Intermediate (WTI), a major pricing benchmark, peaked on 11th July at just over US\$147. However, this price bubble was inherently unstable and as the global financial crisis began to take hold demand fell away. Without an adequate correction in supply, the slump remained unchecked and the oil price continued to plummet. By December 2008, the cash price for WTI was below the US\$40 per barrel mark.

Such a dramatic price collapse led to a buying spree by those with access to cheap credit. Almost everyone piled in; the oil majors, the banks, and the trading houses. A great scramble ensued to squirrel away physical oil and with land-based storage either 'captive' or filling up fast, a wave of ULCCs, VLCCs and even Suezmaxes were time chartered in, loaded with crude or products and then stationed at places like Scapa Flow and Singapore. Tanker rates, which had been weak, duly rallied and over 100 million barrels of oil became stored at sea.

The economic rationale behind this bout of frenzied activity had a name; oil market 'super contango.'

Contango is a condition in a commodity market where the futures price for the commodity is higher than the current spot (or cash) price. One way to capitalise on such a pricing structure is for a market participant to purchase the physical goods today and sell the same goods forward under a futures contract for a specified point in the future at a higher rate. By doing this they can lock in a profit with relatively little risk. However, to pull off this trick they will require the wherewithal to finance, insure and crucially carry the goods until the futures position closes out.

What makes such a tactic viable or not is the scope of the discrepancy, or 'spread', between current spot rates at which the physical purchase is made and the future price at which the onwards sale could potentially be fixed at. A small contango spread of say US\$1-2/bbl will not be sufficient to justify the costs involved, but should a spread steepen typically beyond US\$8/bbl, particularly over a tighter window of time (a January/August spread versus a January/December spread), the greater the likelihood the numbers will work and the potential for a profit to be made will exist.

How and why the oil price can slip into contango may depend on various sudden or protracted imbalances in real time supply and demand which, if not reflected in near-off or far-off futures pricing, lead to distortions between markets and arbitrage opportunities.

Importantly, once the futures markets for the particular commodity 'catch up' or adopt a similar outlook to what is going on in the spot market and adjust for a new price equilibrium, the game is rumbled and the trade is over.



## HIDE & SELL (continued)

### **So how do tanker rates figure in this equation?**

On the physical side of the trade, by and large the cost of storage will be the trader's biggest overhead. Whilst land-based storage, being typically cheaper, will be the preferred option once this possibility is exhausted, storing the cargo afloat is the next logical step.

As with the last major contango play, most if not all the main players will have access to cheap lines of credit and will be paying fractionally over LIBOR to finance their oil lots. Cargo insurance will also not be too costly a necessity to procure and items such as bunkers and anchorage dues should only be minor hindrances on their balance sheet.

By way of example, the disbursement account (D/A) for stationing a laden VLCC at Scapa Flow for instance (including anchorage dues, agency fees, inwards and outwards pilotage and tugs) for a 6 month period, at present rates, comes to just under GBP 50,000.

*All present and correct so far then.*

The biggest stumbling block, however, are tanker rates. Even with 2 million barrel cargoes, there is a huge disparity in the profitability of a floating storage trade between chartering a vessel in on US\$40,000 and US\$50,000 per day, particularly over a prolonged period. Such a difference can effectively scupper even the most promising contango play and if tanker rates are strong, as is presently the case, any trader will require a much steeper contango spread to develop in order to make the game worth the candle.

### **A repeat performance on the cards?**

*In short, not yet.*

Although it is certainly true that the recent drop in oil prices mirrors in many respects the beginning of the last 'super contango' this in itself is not enough to suggest a

spate of lengthy period charters with storage options are on the immediate horizon.

The issue is twofold; the required spread is not yet there and current VLCC rates are too high.

Oil market fundamentals have significantly changed in the last 6 years. The shale revolution in the US has dramatically altered market dynamics and trade flows. Whilst Saudi Arabia still retains the whip hand, OPEC would appear to no longer wield the power it once did and also has the competing interests of the likes of Russia and Mexico to worry about, as well as its own internal politics.

What this means in basic terms is that the current supply glut the major producers find themselves confronted with would not appear to be a temporary or fleeting dilemma.

Crucially, given the overwhelming level of supply and with the Saudis' continuing reluctance to cede market share, present market fundamentals do not inspire an aura of volatility sufficient to dramatically offset current and future pricing. Longer term contango spreads would not therefore seem presently wide enough to encourage putting barrels into floating storage unless tanker rates were to substantially fall.

This is of course until one, or a group, of the major producers acts decisively to rein in exports and counterbalance supply with existing levels of demand. For many however, particularly the likes of Venezuela and Nigeria, such a step would be almost unthinkable given the level of dependency their economies have on oil exports and would likely pave the way for political and economic turmoil.

With the two 'swing' voters, Saudi Arabia and Russia, both unwilling to back down from their present positions it seems unlikely much will change for the time being.



*It is also important to note that, this time around, tanker rates are in rude health.*

Along with increased seasonal demand over recent winter months and a more general uplift in ton-mile demand as more West African cargoes make their way to the Far East (another legacy of the shale revolution), since the recent slump in oil prices, both India and China have been ramping up crude imports to fill their respective Strategic Petroleum Reserve (SPR) inventories. China, notoriously coy about disclosing details regarding her energy stockpiles, now has significant SPR storage capacity up and running, and according to various media sources including the Financial Times, increased daily crude imports to over 7 million barrels a day by the end of 2014.

This increased market activity, along with similar type demand from commercial refiners, helped push up an already rising market, particularly for VLCCs, and this was reflected in spot rates over the winter period.

Whilst some of this demand has tailed off in the last few weeks, with a finite amount of supertankers in circulation and stronger rates forecasted for 2015, it would seem present tanker rates, relative to current oil market contango spreads, are yet to be conducive enough to make floating storage an attractive option right now.

### **Has the game therefore changed?**

It is probably a bit premature to write off the chances of a repeat of 2008-09 as some of the key ingredients would seem to be present once more but certain parameters have now evolved.

Whilst the underlying rules remain the same, this time around, the players in the game have changed.

Along with the ever present oil majors, today the markets are dealing with a much more sophisticated level of trader.

Due to regulatory pressure in the US the 'Wall Street Refiners' have over the last few years stepped back from front line physical oil trading and the trading houses that remain are now far more vertically integrated, with significantly enhanced storage assets and access, than previously.

For these entities the game has been afoot for some time but much of it has been conducted quietly, with oil shipments being funnelled into land based storage hubs such as Jurong Island, Saldanha Bay and Fujairah.

As a consequence, the presence of these highly equipped independent trading houses and their heavy duty state backed Far Eastern competitors has meant the scope for ad hoc highly responsive floating storage plays has diminished from what it once was.

However some 40 million barrels of tanker capacity, comprising various ULCC and VLCC units, was apparently booked as floating storage at the turn of the year according to Reuters, but the reported period rates agreed bore no resemblance to spot market levels at the time. Whether these fixtures were a preemptive strike remains to be seen but since this flurry there has been little further similar chartering activity.

In the absence of significant contango spreads therefore, which previously peaked above US\$17 for Brent and US\$23 for WTI respectively during the 'super contango' epoch, there is far less impetus or frenzy within the market to opt for floating storage at present.

For tanker Owners understandably keen to make the most of buoyant spot market rates the corresponding level of attraction is likewise absent for now. Looking ahead, much though may depend on whether Chinese demand for crude oil imports slows down in the near future or the degree to which tanker rates may soften as summer approaches and refineries go off-line for planned maintenance work.

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**However, with all the above in mind and OPEC yet to get its house in order, the rush to store large quantities of oil at sea is yet to fully take off.**

# POLAR BEARS... IN CYPRUS... QU'EST-CE QUI SE PASSE?



### **The Club's Seminar, "Polar bears, red tape and capricious arrests" held in Cyprus, took a detailed and occasionally light-hearted look at dispute resolution through Mediation.**

Once again in role-play format, the scenario followed the fortunes of "Tristan", an English bulker Owner played by Mark Mathews, initially ordered by "Louis" his French Charterer played by Nick Milner, to transit the Northern Sea Route in his non-Ice Class ship. After seeking guidance from his Club (Jim Roberts) and taking legal advice from a solicitor (Douglas Bateson of Thomas Cooper) Tristan refused those orders. Instead he accepted new voyage orders for the ship to lift a parcel of grain from Kavkaz for discharge in Yemen.

Unsurprisingly, the ship experienced delays and other problems. Sanctions issues needed to be considered, a cargo shortage arose at Hodeidah and receivers threatened arrest. Rather than allow his ship to be stuck indefinitely, Tristan settled the claim with local receivers and sought an indemnity from Louis in accordance with the "Yemen cargo claim clause" he had specifically negotiated into the fixture terms.

The Auld enemies referred the dispute to arbitration but, at the suggestion of Louis' lawyer (Iannis Stephanou of

Ince & Co), a mediation is arranged in which leading full-time mediation practitioner Stephen Mills is charged with the task of finding a compromise.

Expertly guided by the Mediator the two parties trade arguments, offers, counter-offers and the odd insult until the unbridgeable gap narrows. A deal is finally done and the scene closes with the two protagonists clinking champagne glasses and talking about collaborating over new business. As Louis would say, "Tout est bien qui finit bien!"

The seminar was well-received by all our friends on the Island who came along to learn, explore issues and have a little fun. We were pleased so many were able to join us for a drink and a bite to eat afterwards at the Londa's Caprice Bar terrace.

*"Weakness on both sides is, as we know, the motto of all quarrels."*

*Voltaire*



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