



**INTERTANKO**

# **Tanker Operator Conference**

**Courtyard by Marriott,  
Mumbai  
05 February 2015**

**Ajay Gour  
INTERTANKO**



# Making Money in a Tough Market...

## **Anti-Trust/Competition Law Compliance Statement**

“INTERTANKO’s policy is to be firmly committed to maintaining a fair and competitive environment in the world tanker trade, and to adhering to all applicable laws which regulate INTERTANKO’s and its members’ activities in these markets. These laws include the anti-trust/competition laws which the United States, the European Union and many nations of the world have adopted to preserve the free enterprise system, promote competition and protect the public from monopolistic and other restrictive trade practices. INTERTANKO’s activities will be conducted in compliance with its Anti-trust/Competition Law Guidelines.”



## **Operations/regulations and its impact on costs**

- **Ballast Water Management**
- **ECA**
- **Vetting**
- **Payment Performance**



## Assisting INTERTANKO Members

- Implementation Schedule
- Decision Tree
- Model Extension Request (MER) Letter
- Clarification of USCG Rules
  - *extension requests (allow new tankers to have an extension until the ship's first drydocking after the first USCG BWMS has been approved)*
  - *flexibility in submitting applications inside the 12 months submission period*



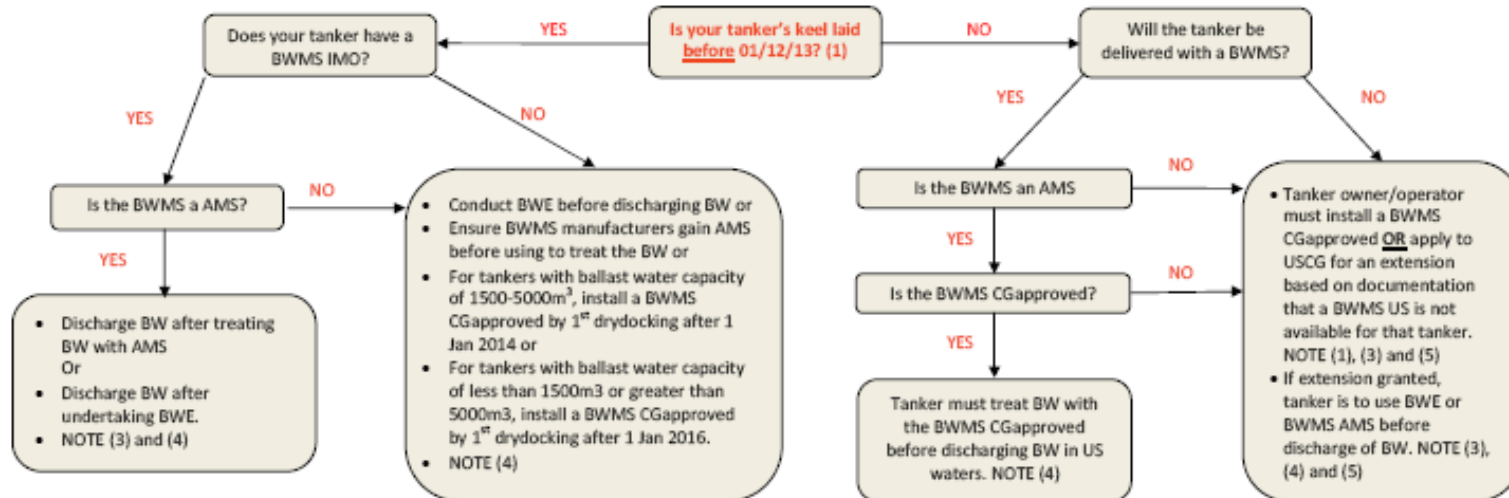
# Ballast Water Management

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## US Ballast Water Rule Decision Tree



### NOTES:

- (1) The Decision Tree is based on the assumption that your tanker will discharge BW in US waters, if you do not discharge BW in US waters there is no need to use a BWMS or conduct BWE. NOTE (4).
- (2) Please refer to the INTERTANKO Guidance Note and USCG Policy on applying for Extensions.
- (3) AMS must become BWMS CGApproved within 5 years of the vessel compliance date.
- (4) All tankers regardless of ballast water management method must submit a [BW Report](#) prior to entry in to US waters.
- (5) The EPA VGP does not allow for extensions. If a CG extension is granted, the tanker may still have to install a BWMS to meet the EPA VGP requirements. INTERTANKO is discussing the matter with the EPA to see if they will consider granting extensions to those that are granted CG extensions.

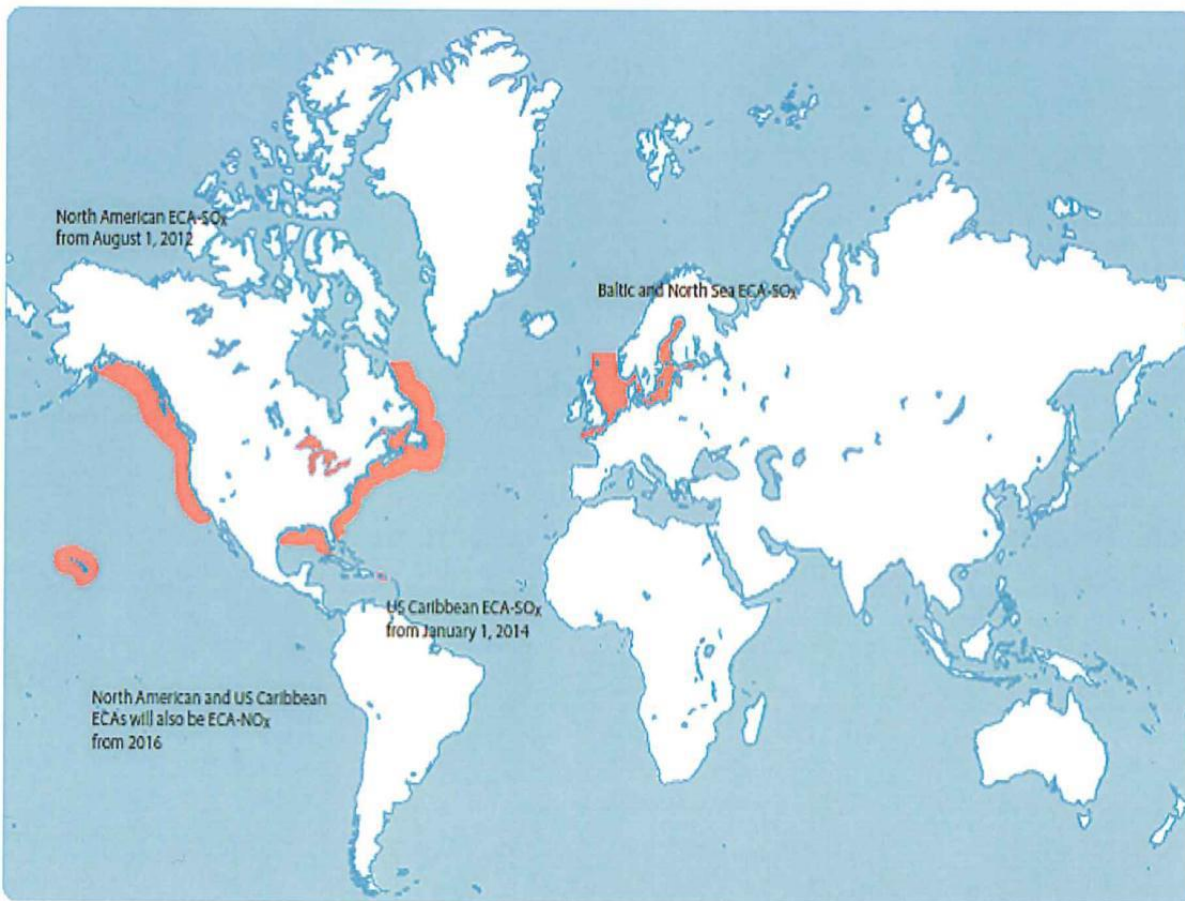
### DEFINITIONS:

BWMS IMO	Ballast Water Management System with IMO Type Approval
BWMS AMS	Ballast Water Management System listed as an Alternate Management System CFR 151:2026 ( <a href="#">Updated list of BWMS AMS</a> )
BWMS CGApproved	Ballast Water Management System with USCG Type Approval



# EMISSION CONTROL AREAS

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## ECA Sulphur content:

- 1.00% before 2015
- 0.10% 2015 & after

**Decisions need to be made: MGO; EGCS; LNG?  
EGCS (scrubbers)?**



## **FUEL**

### **LOW SULPHUR FUEL (0.10% S content MGO)**

**Some challenges**

**Expensive solution but a number of advantages**

**Availability**

### **LIQUID NATURAL GAS (LNG)**

**Not realistic for most of the existing ships**

**New ships in the future (supply network needed)**

## **EXHAUST GAS CLEANING SYSTEMS (scrubbers)**

**Performance (fit for purpose & reliability)**

**Rule predictability (acceptance by port authorities)**

**Cost – efficiency**



# FUEL CHANGE OVER CHALLENGES

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## **Safety aspects**

- combustion characteristics**
- heat transfer and circulation**
- flash point**

## **Operational aspects**

- fuel segregation/contamination**
- incompatibility - fuel filter blockages**
- low viscosity – leaks & loss in pressure**
- low lubricity - pump seizure**
- bio element**

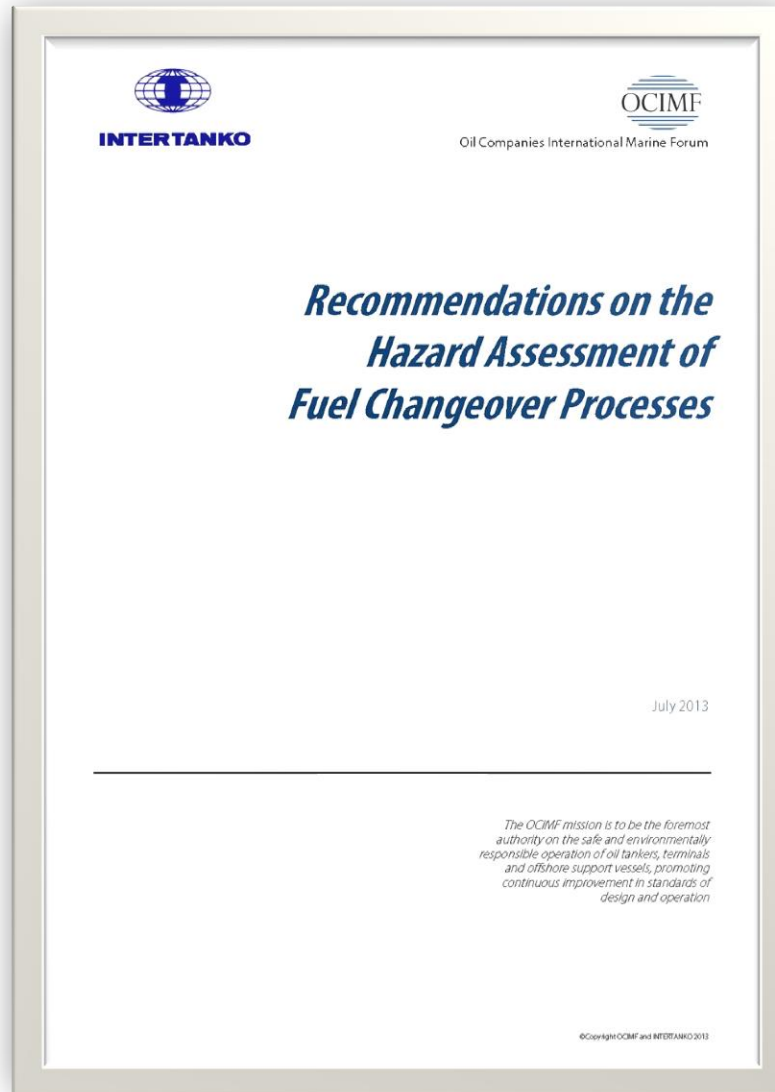
**HAZID to avoid mechanical failure & power loss**





# FUEL CHANGE OVER - HAZID ASSESSMENTS

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# COST- ASSESSMENT/ECA 2015

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ALTERNATIVE	CAPEX	OPEX
MGO	Low	premium US\$350/t up to 5% fuel saving
SCRUBBER	US\$3 mil – US\$8 m	in use up to 5% fuel penalty US\$ 50k - 100k/ year
LNG	US\$10 - 15 m	20% - 25% fuel cost saving

**Different calculations according to**

- the trade
- new buildings versus existing ships
- ship's age
- financing the CAPEX
- actual OPEX
- repair & maintenance to be accounted for



# ECA CALCULATOR

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## ROI (Return of Investment)/Payback time (years)

		Share of days in sea in ECA													
		5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	75%	100%	
Premium MGO vs HFO (USD per tonne)	50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	120.6	25.2
	150	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	624.0	90.4	48.7	17.1	9.5	
	200	0.0	0.0	0.0	0.0	0.0	0.0	135.5	50.0	30.6	22.1	17.3	9.2	5.8	
	250	0.0	0.0	0.0	0.0	2146.6	61.5	31.2	20.9	15.7	12.6	10.5	6.3	4.2	
	300	0.0	0.0	0.0	0.0	53.1	26.5	17.6	13.2	10.6	8.8	7.5	4.8	3.3	
	350	0.0	0.0	0.0	66.6	26.9	16.9	12.3	9.7	8.0	6.8	5.9	3.9	2.7	
	400	0.0	0.0	204.9	33.1	18.0	12.4	9.4	7.6	6.4	5.5	4.8	3.2	2.3	
	450	0.0	0.0	59.2	22.0	13.5	9.8	7.6	6.3	5.3	4.6	4.1	2.8	2.0	
	500	0.0	0.0	34.6	16.5	10.8	8.1	6.4	5.3	4.6	4.0	3.5	2.4	1.8	
550	0.0	164.8	24.5	13.2	9.0	6.9	5.5	4.6	4.0	3.5	3.1	2.2	1.6		

Cost (USD)	5,840,000
Depreciation (%)	9%
Daily consumption (t)	22.8
Days at sea/year	335
Voyages/year	30
Fuel/discharge (t)	10
HFO cost	650

**A simple example to assess MGO vs. EGCS**

*OPEX, maintenance and repairs costs not included*



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100	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	131.5	59.6	18.7	10.1
150	0.0		0.0	0.0	0.0	0.0	432.9	62.0	33.4	22.9	17.4	14.0	7.9	5.1
200	0.0		0.0	0.0	0.0	65.4	29.6	19.2	14.2	11.2	9.3	7.9	5.0	3.4
250	0.0		0.0	0.0	52.6	23.8	15.3	11.3	9.0	7.4	6.4	5.5	3.7	2.6
300	0.0		0.0	74.3	24.3	14.5	10.4	8.0	6.6	5.6	4.8	4.3	2.9	2.1
350	0.0		0.0	32.3	15.8	10.5	7.8	6.2	5.2	4.4	3.9	3.5	2.4	1.7
400	0.0		86.5	20.6	11.7	8.2	6.3	5.1	4.3	3.7	3.3	2.9	2.0	1.5
450	0.0		40.9	15.1	9.3	6.7	5.2	4.3	3.6	3.2	2.8	2.5	1.8	1.3
500	0.0		26.8	12.0	7.7	5.7	4.5	3.7	3.2	2.8	2.5	2.2	1.6	1.2
550	0.0	19.9	9.9	6.6	4.9	3.9	3.3	2.8	2.5	2.2	2.0	1.4	1.0	

Cost (USD)	<b>4,000,000</b>
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**A simple example to assess MGO vs. EGCS**

*OPEX, maintenance and repairs costs not included*



## Inspections

- **Numbers**
- **Costs**
- **Inspector Stds**
- **VIQ - Guidance**
- **Inspector Availability**

## Policies

- **Transparency**
- **Off. Matrix**
- **Terminal Insp'ns**
- **Maiden Voyages**
- **Incident Reports**



***Payment  
Performance***

***Payment  
Performance System...PPS***



## **INTERTANKO – tanker sustainability ?**

### Non-sustainability manifested

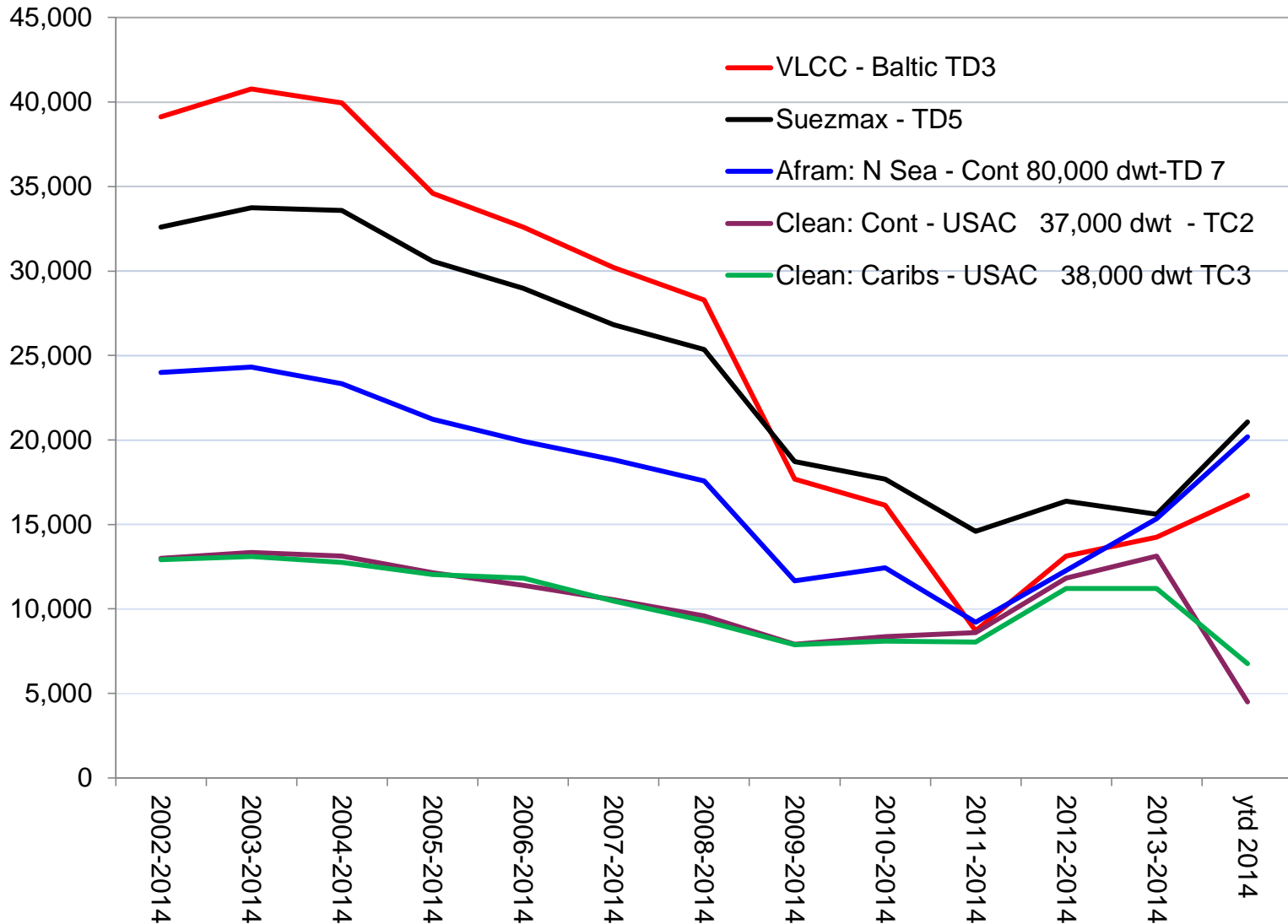
- + in charter/freight rates not covering basic vessel operating costs
- + **in the late payment of freight and demurrage**
  - hits owner's cashflow
  - increases owner's working capital req't
- + in inconsistent, unbalanced charter terms & vetting



# Average freight rates 1 -10 years backwards

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\$/day

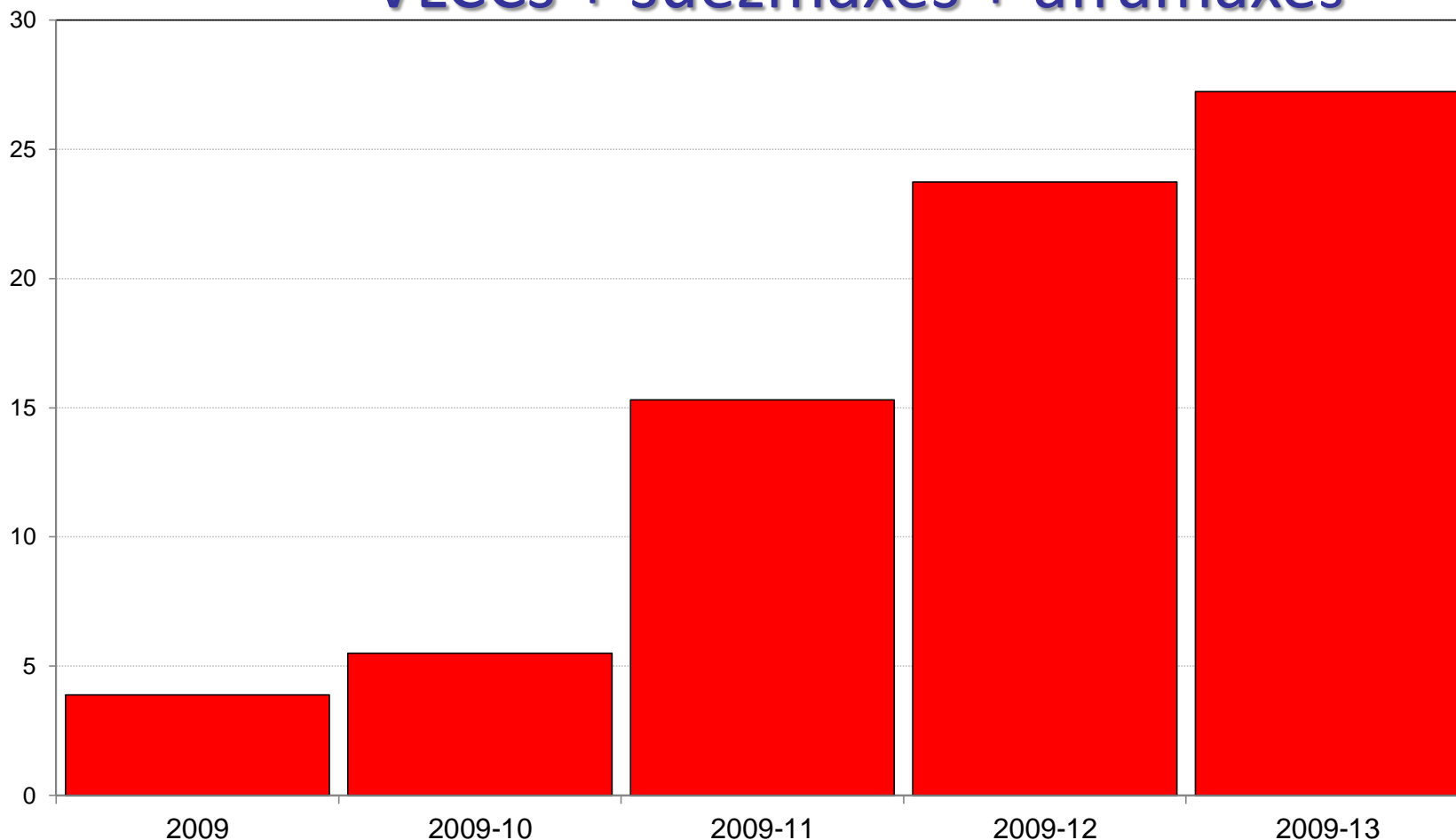






# Estimated accumulated losses VLCCs + suezmaxes + aframaxes

\$ billion





## Sustainability Project

Headline figures for accumulated losses:

Accumulated losses since 2009 for large/medium tankers  
**\$26bn**

The same again (or more) accumulated by the smaller sizes



## Sustainability Project

### Aim:

- To realign tanker industry key stakeholders, and to work towards more balanced tanker trading conditions and fair risk sharing, that will allow sustainable quality shipping regardless of market cycles.
- To change bad habits/practices (late payments)

*A m b i t i o u s a i m ?*

Start with some specifics ...



## Sustainability Project

*It's NOT about poor freight rates*

### **Specifics:**

- Erosion of, and failure to adhere to c/p terms
- Lack of understanding about Worldscale
- Inconsistent, subjective, costly vetting practices
- **Delays in freight and demurrage settlements**



## Sustainability Project

### Contractual obligations?

**Freight** (c/p says payable on completion of discharge)

*Pilot study:*

*Typical 5-10 days*

**Demurrage** (c/p says payable on receipt owner's invoice)

*Pilot study:*

*Typical > 90 days*



# Sustainability Project

## **Ultimate Aim:**

to change ingrained bad habits

## **Primary Focus:**

late payments by charterers

## **Action:**

INTERTANKO Chairman's letter to charterers

INTERTANKO's industry voluntary Code of Conduct

INTERTANKO's Payments Performance System



## Sustainability Project

*What does this mean for you?*

Basis 5 ship fleet

Each ship fixing once a month

5% cost of funds

Average F & D amounts

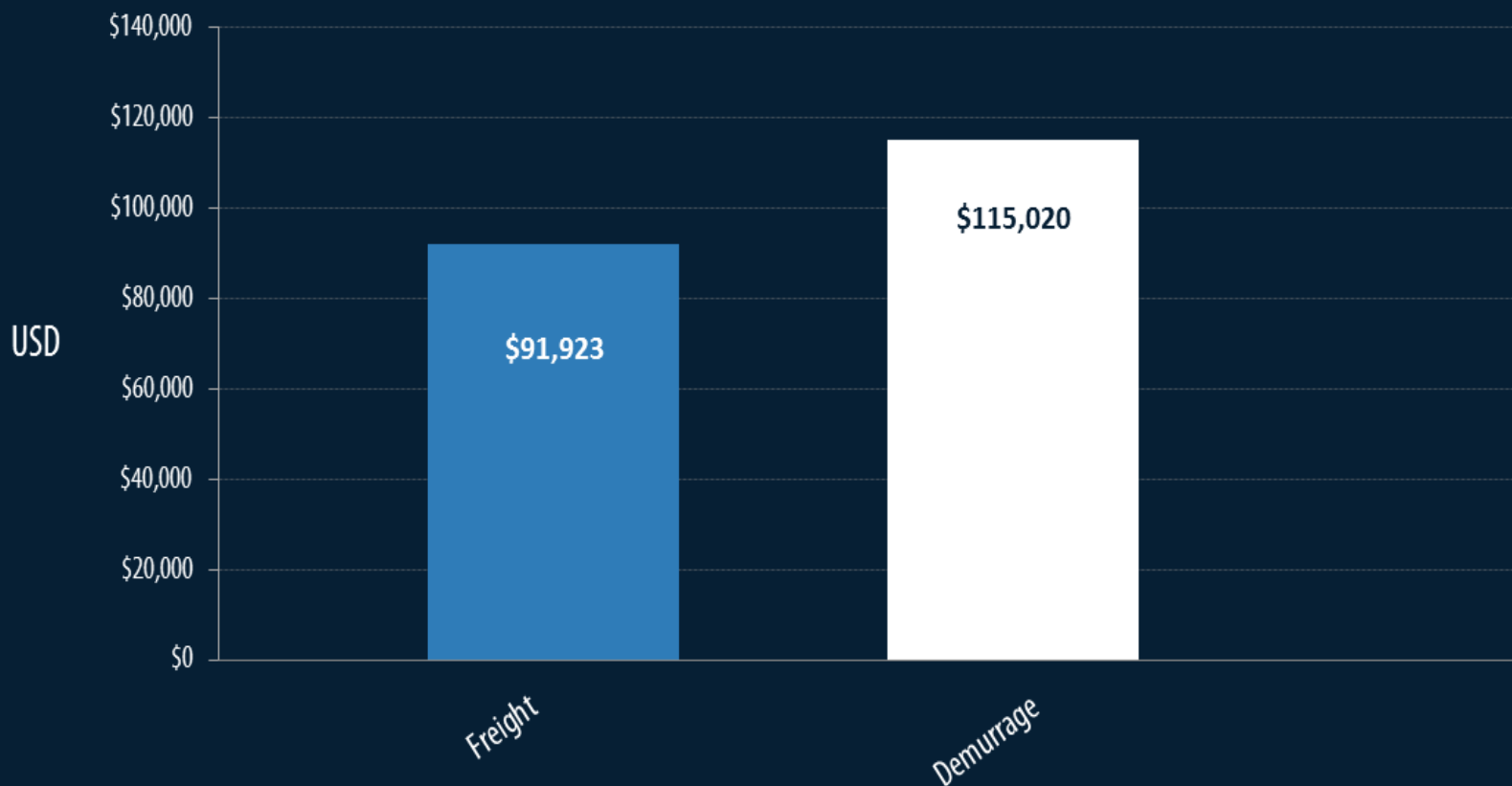
F&D delays cost > **\$200,000 a year**

2 day reduction in freight delays: \$20,000 a year

Halving demurrage delays (120>>>60): \$56,000 a year



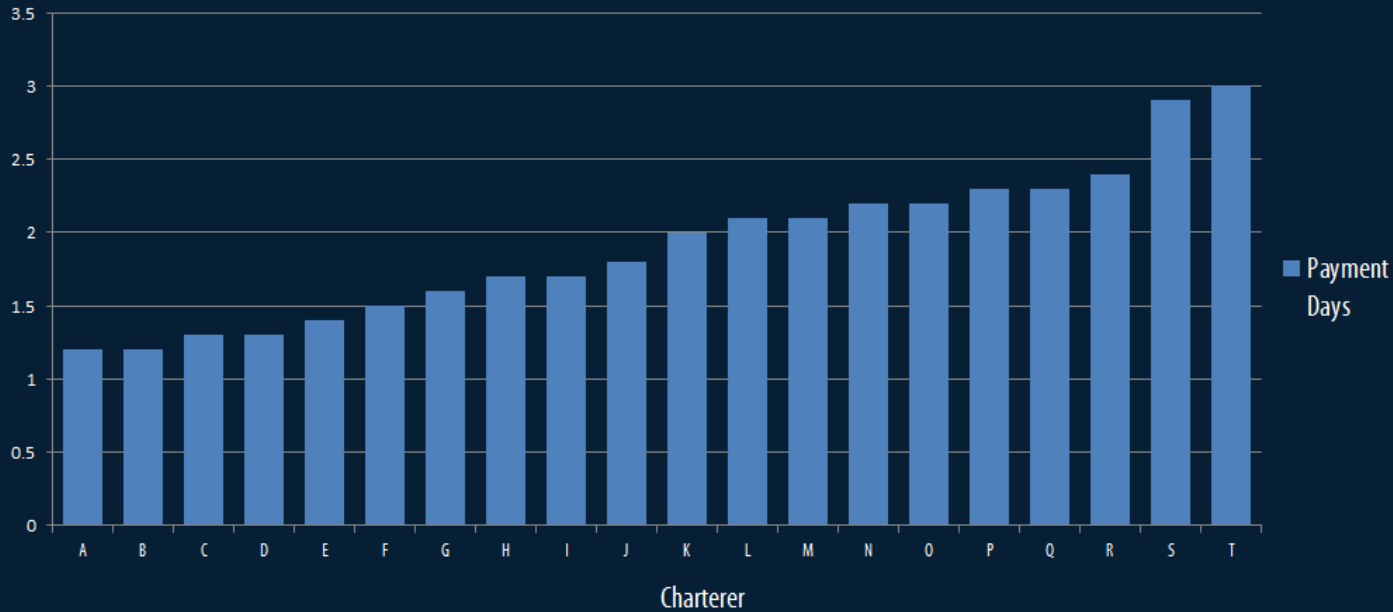
## Freight and Demurrage payments My late payment costs for last 12 months





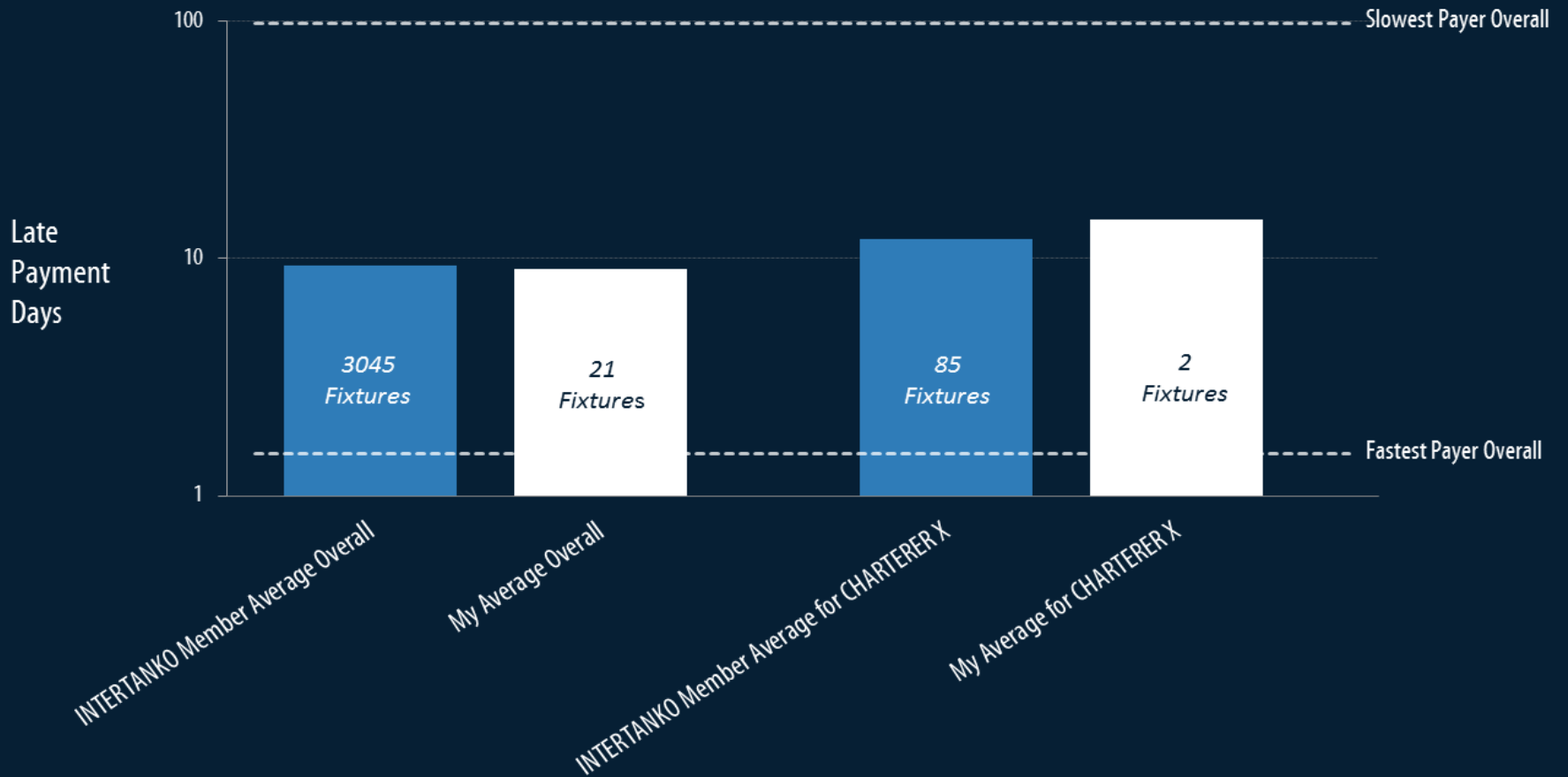


# Freight Payments Top 20 Charterers





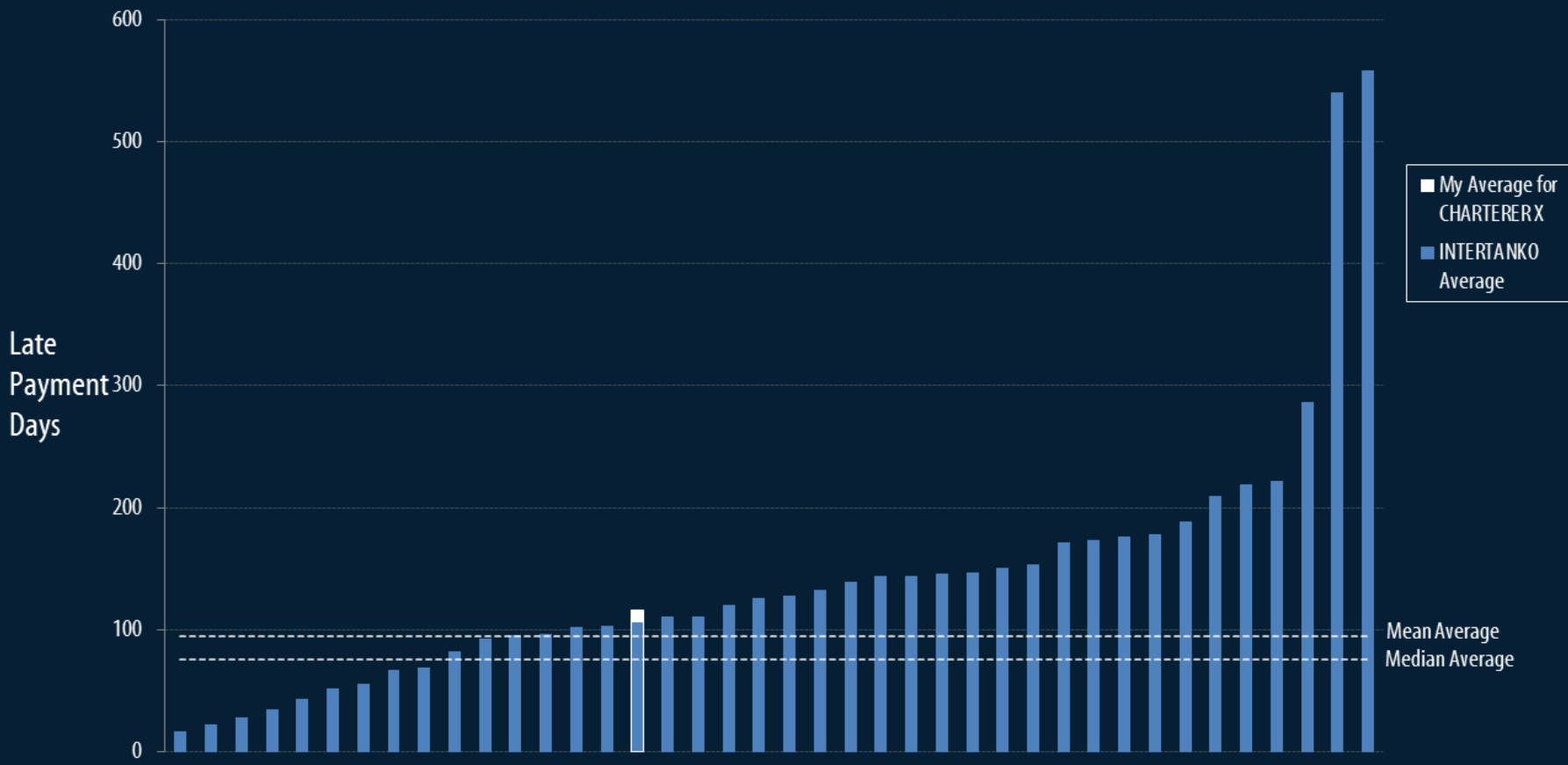
## Freight payments My average overall, and for Charterer X, compared to all members





## Demurrage payments

### My average for Charterer X compared to all members and to all charterers





## PPS: Output and Deliverables

### *What you get ...*

- Top 20 best payment performers
- Average delays in freight payments
- Average delays in submitting demurrage claims
- Average delays in negotiating demurrage claims
- Average delays in payment of agreed demurrage claims



## PPS: Output and Deliverables

### *Plus +*

- Comparison between owner's own fixtures/charterers
- Comparison between owner's own data and other Members'
- Comparison between charterers (subject compliance with anti-trust/competition rules)
- Comparison between different tanker types
- USD amount overdue for how long (i.e. to calc cost of extra working cap)
- Comparison of payment performance over time



## PPS Data needs

### *What you give ...*

- Charterer name
- Vessel name
- Vessel dwt
- Voyage start date
- Voyage end date



## PPS Data needs

### *Plus +*

- Invoice amount for freight
- Invoice amount for demurrage
- Invoice dispatch date for demurrage
- Dispute notified date (if appl)
- Claim agreed date (if appl)
- Invoice payment date for freight
- Invoice payment date for demurrage
- Amount actually paid for demurrage



**Thank You**