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Consequences on Greek owned fleet by the E.U. Phase Out Plan (Regulation 1726/2003)

Abstract

Recent nautical accidents (Erika and Prestige), have made the European Union to hasten the adoption of rigid measures where retirement of vessels not included in double side / double hull category is concerned. Shipowners operating single hull vessels, objected to such a prospect, but recently, the European Union unilaterally decided to hasten the retirement of single hull vessels, producing concern in the market.

Greek shipowners represent a major part of the tanker market, owning a large number of single hull tankers, thus reacting to the decision of the E.U. by making relative representations towards the International Maritime Organisation.

In this paper, consequences towards the Greek owned fleet are examined in relation to the amendment of E.U. Regulation 417/2002 and the implementation of Regulation 1726/2003 from October of 2003.

These consequences are expected to have severe effects not only against the competitiveness of Greek owned fleet but against the total level of world capacity offered.

Key words: nautical accident, vessel's retirement, double side/hull, single hull

1. The Greek owned fleet

The Greek owned tanker fleet¹ – in accordance with Lloyd's / Fairplays data– on December 2002 was consisted of 807 vessels, of total capacity 59.059.756 dwt. If upon this number of ships, the 2003 deliveries are added, the Greek owned fleet will

¹ In the Tanker term the following specialized vessel types are included, in accordance with Lloyd's / Fairplays: Asphalt Tanker, Bitumen Tanker, Bunker Tanker, Chemical Tanker, Chemical/Oil Tanker, Crude Oil Tanker, Parcels Tanker, Products Tanker, Replenishment Tanker, Storage Tanker, Tanker, and Water Tanker.

number 867 tankers, of 64.197.494 total dwt capacity (not counting scrapings for the year 2003). In detail, in the following table depicts the age allocation of the fleet, the number, total dwt capacity and average size per construction annum.

According to article 4 of European Council Regulation 417/2002, no tanker will be allowed to operate under any member flag state and furthermore no tanker disregarding flag state will be allowed to enter ports or deep sea terminals under the jurisdiction of a member state, if the deadline laid down, in accordance to vessel delivery date, has expired unless the tanker is considered double hull.

According to the same regulation, tankers are split into three categories, with varying retirement dates for each.

In specific, the first category includes pre-MARPOL tankers (not equipped with segregated ballast tanks- SBT), the second category includes MARPOL tankers (equipped with SBT), and last but not least the third category includes small tankers (5-20.000 dwt crude tankers and 5-30.000 dwt tankers).

Table 1: Age Allocation of the Greek Owned Tanker Fleet

| Yrs | No | DWT | A.S. |
|------------|-----------|------------|-------------|
| 1943-1973 | 150 | 745.476 | 4.970 |
| 1974 | 15 | 861.211 | 57.414 |
| 1975 | 31 | 1.614.197 | 52.071 |
| 1976 | 38 | 3.277.166 | 86.240 |
| 1977 | 24 | 3.378.725 | 140.780 |
| 1978 | 24 | 1.395.365 | 58.140 |
| 1979 | 28 | 1.594.898 | 56.961 |
| 1980 | 51 | 3.045.783 | 59.721 |
| 1981 | 49 | 2.815.738 | 57.464 |
| 1982 | 34 | 1.700.812 | 50.024 |
| 1983 | 28 | 1.451.067 | 51.824 |
| 1984 | 21 | 984.063 | 46.860 |
| 1985 | 11 | 327.077 | 29.734 |
| 1986 | 17 | 1.566.060 | 92.121 |
| 1987 | 15 | 1.024.523 | 68.302 |
| 1988 | 14 | 1.225.771 | 87.555 |
| 1989 | 20 | 2.426.985 | 121.349 |
| 1990 | 11 | 845.672 | 76.879 |
| 1991 | 12 | 1.439.486 | 119.957 |
| 1992 | 13 | 1.753.904 | 134.916 |

| Yrs | No | DWT | A.S. |
|------------|------------|-------------------|---------------|
| 1993 | 15 | 1.646.665 | 109.778 |
| 1994 | 8 | 395.600 | 49.450 |
| 1995 | 9 | 1.444.943 | 160.549 |
| 1996 | 15 | 1.470.362 | 98.024 |
| 1997 | 8 | 608.434 | 76.054 |
| 1998 | 23 | 3.053.769 | 132.773 |
| 1999 | 21 | 2.451.741 | 116.750 |
| 2000 | 16 | 2.579.413 | 161.213 |
| 2001 | 20 | 3.365.530 | 168.277 |
| 2002 | 66 | 8.569.370 | 129.839 |
| 2003 | 60 | 5.137.738 | 85.629 |
| | 867 | 64.197.494 | 74.046 |

Source: Data (original Lloyd's / Fairplays) as processed by the author

2. European Union and IMO

The International Maritime Organization – IMO on the sitting of the Marine Environment Protection Committee MEPC the proposal that demanded no changes upon retirement deadlines schedule on Marpol vessels from Marpol against EU requests was adopted, therefore allowing as maximum allowed time-limit the year 2015 as required by the “ERIKA” measures and not 2010 according to the “Prestige” packet.

The condition for expanding the life span of a single hull vessel beyond 2010 would be for her to pass the applicable control expansion of the Condition Assessment Scheme-CAS.

Also, should a single hull vessel reach the 20th or 23rd or 25th year of age before 2015 then it will be retired.

The final decisions for the exact determination of vessel retirement age and if it will be implemented by 2015 will be made next December upon the meeting of the Marine Environment Protection Committee.

E.U. puts pressure on IMO in order to have the equivocal proposition accepted by the Marine Environment Protection Committee. In specific, E.U. representatives suggested that should the proposition for retirement on 2015 be accepted, it should also result into the addition of a paragraph in MARPOL that would give the right to all countries to deny unilaterally entrance to its ports for single hull vessels after the year 2010.

The majority of IMO voted down the E.U. proposal, on the terms that on one

hand it is of no necessity and on the other hand it is against the IMO spirit resulting in the statutory debasement and subsequent abolition of the role of IMO since everyone will be doing as he pleases.

However, with the implementation of the regulation by October E.U. sends a sound message to IMO.

The legal issue at hand however remains what to be done till the E.U. "Prestige" packet of measures comes into world implementation in mid 2005. Because if it is to be valid worldwide, whatever decision is made on December the Marpol convention will have to be amended. Whereas amendments as stated in the treaty itself come into effect after an 18th month period. Thus in a world level the "prestige" packet of measures will be implemented by mid 2005 whatever its variation maybe.

3. Basic Points of the amendment of the Regulation

The basic points of the amendment of the regulation can be pinpointed mainly on the dates of retirement for the three categories of tankers ranging from 2 years (Category I), to five years (Categories II and III). The banning of Oil related product carriage by single hull vessels is further expanded on mooring points under the jurisdiction of member - states.

Furthermore, the implementation field of the Regulation is being amended so that tankers of 600 dwt and more are addressed ensuring that the ban on heavy crude oil distillates carriage by single hull vessels will also be implemented on small tankers, of the range of 600 to 5000 dwt.

In addition, a wider implementation of the status of Condition Assessment Schemes, aiming at the evaluation of the structural validity of single hull tankers that have exceeded the 15th year of age.

It is noted that the most important amendment is the one regarding the hastening of retirement and of course the banning of heavy crude oil distillates carriage on the range of 600 to 5000 dwt tankers.

For the above reason, our research is expanded into three situations: the one in effect based on Regulation 417/2002, the amendment of the Regulation but without the small tanker banning (600 – 5.000 dwt), and last but not least the amendment of the Regulation including the banning of carriage of heavy crude oil distillates by small tankers.

4. Research Concessions

For the calculation of the effects of the amendment of the Regulation on the Greek owned tanker fleet, we have acknowledged that all tankers of Category I (pre-MARPOL) will not be affected, since the few that still trade can easily and with a

relatively low cost be converted to Category II tankers (MARPOL SBT configuration), till 2007, which is the last date of retirement.

For the tanker Categories II and III, the dates provided by the Regulation, are in every way the same and therefore it was the authors consideration that the whole of the Greek owned tanker fleet will adhere to the timetable of Category II.

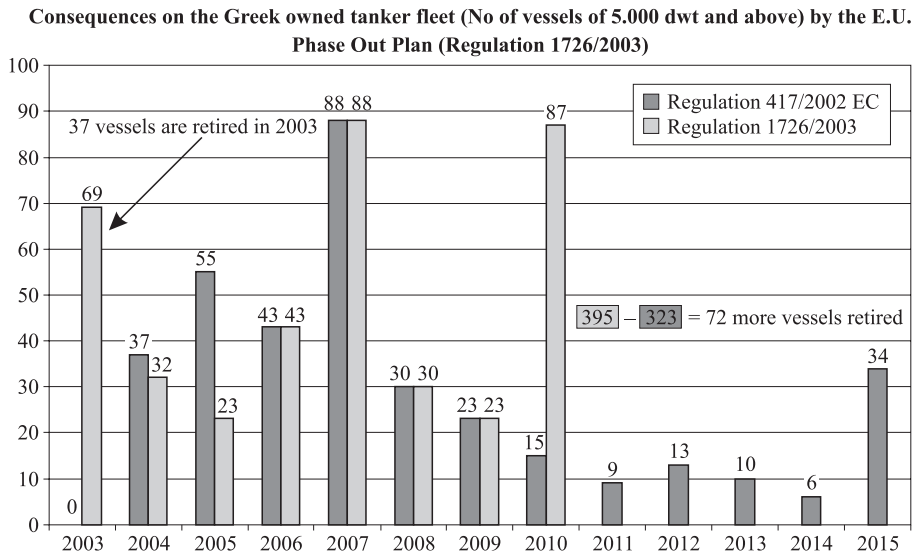
According to that timetable, the retirement of tankers starts by 2003 for vessels delivered till 1973 and ends by 2015 for vessels delivered on 1989 or later and have no double hull.

In the tankers to be retired all single hull vessels were calculated along with vessel types that possess double bottom but no double hull. And finally, on the “compatible” types (and as a result not affected by Regulation 417) of tankers apart from the double hull tankers, double side tankers were also calculated.

5. The Results of the Research

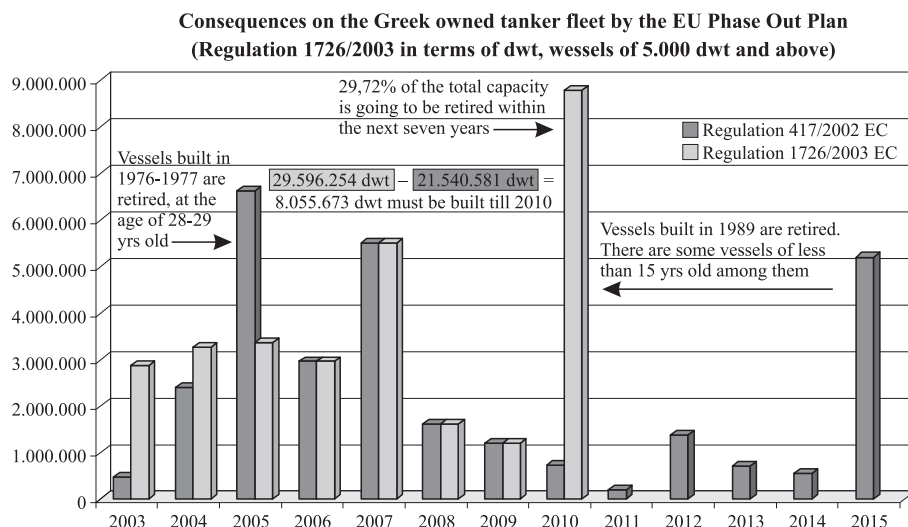
Research results show that the effect volume on Greek owned fleet by the amendment of 417/2002 Regulation in terms of numbers and for ships exceeding 5.000 dwt, the amendment will result into the retirement of a further 37 vessels and the retirement hastening of 108 in all vessels.

Diagram 1



Source: Data Processed by the authors

Diagram 2



Source: Data Processing by the authors

In terms of dwt, amendment effects are depicted on diagram 2. The quality variance that stems from the two different retirement schemes, has to do mainly with the “premature technical redundancy” of a major part of the fleet since on the year 2010, among others vessels of less or about 15 years of age are being retired.

An likewise important finding of the research is regarding the hastening of replacement of a further 8 million dwt on the time frame of the seven years to come. This fact, is expected to further fuel the development of Asian shipyards (Japan, S. Korea, China), in expanse of European yards that are already short on competitiveness.

On the other hand, questions are made on the obtainability of the modification scheme, due to the fact that already by 2010 a serious issue of shortage of offered capacity is expected with unknown consequences to tanker charter markets (Table 2).

Table 2 (Vessels of 5.000 dwt and above)

| | Regulation 417/2002 E.C | | Regulation 1726/2003 E.C | |
|------|-------------------------|-----------|--------------------------|-----------|
| | Vessels | dwt | Vessels | dwt |
| 2003 | 32 (11) | 479.037 | 69 | 2.876.113 |
| 2004 | 37 | 2.397.076 | 32 | 3.264.060 |
| 2005 | 55 | 6.632.723 | 23 | 3.368.663 |
| 2006 | 43 | 2.964.400 | 43 | 2.964.400 |
| 2007 | 88 | 5.501.778 | 88 | 5.501.778 |

| | Regulation 417/2002 E.C | | Regulation 417/2002 E.C | |
|------|-------------------------|-------------------|-------------------------|-------------------|
| 2008 | 30 | 1.621.690 | 30 | 1.621.690 |
| 2009 | 23 | 1.202.890 | 23 | 1.202.890 |
| 2010 | 15 | 740.687 | 87 | 8.796.660 |
| 2011 | 9 | 197.367 | | |
| 2012 | 13 | 1.374.587 | | |
| 2013 | 10 | 716.020 | | |
| 2014 | 6 | 561.340 | | |
| 2015 | 34 | 5.206.659 | | |
| | 363 | 29.596.254 | 395 | 29.596.254 |

The effects of research acquire a rather gloomy aspect where tanker owners are concerned if the banning of carriage of heavy crude oil distillates comes into effect for the so named small tankers (600 – 5.000 dwt).

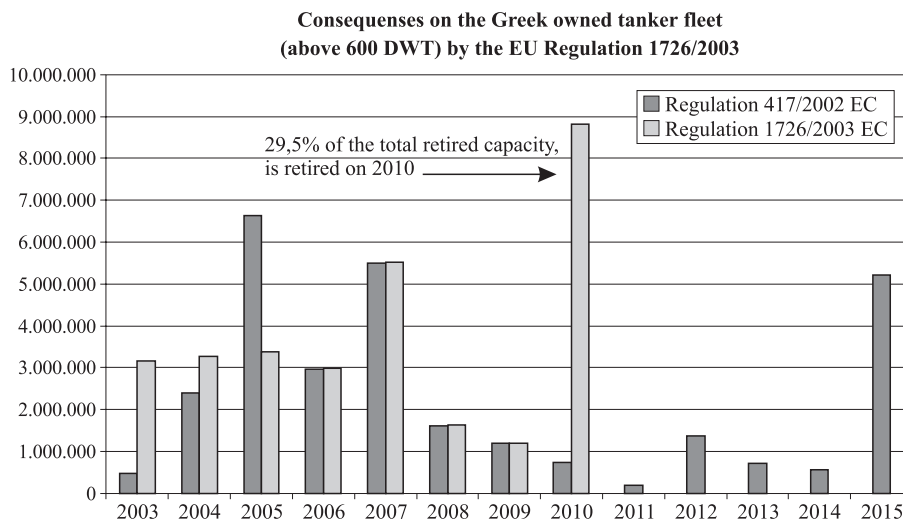
As depicted on diagrams 3 and 4 the Regulation amendment hastens the retirement of 162 additional tankers from which the majority concerns small tankers of high contribution to oil trade by sea on behalf of the countries of the European Union.

In terms of dwt, in the year 2010, 29,5% of the total capacity to be retired is being retired (8,8 mil. dwt), creating a chaos on oil charter markets and endangering intra community trade of oil goods. (Table 3).

Table 3 (Phase Out of tankers ranging 600 dwt and more)

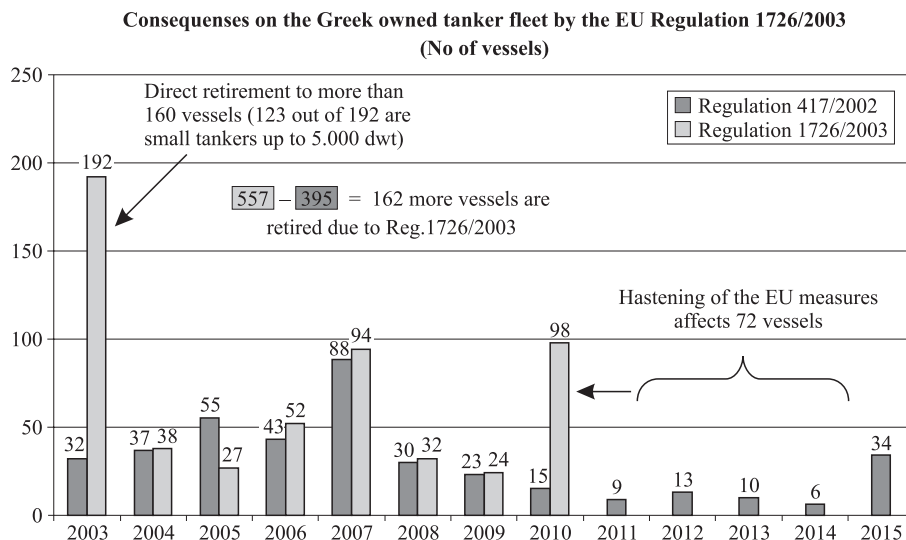
| | Regulation 417/2002 E.C | | Regulation 1726/2003 E.C | |
|------|-------------------------|-------------------|--------------------------|-------------------|
| 2003 | 32 | 479.037 | 192 | 3.156.292 |
| 2004 | 37 | 2.397.076 | 38 | 3.277.116 |
| 2005 | 55 | 6.632.723 | 27 | 3.378.725 |
| 2006 | 43 | 2.964.400 | 52 | 2.990.263 |
| 2007 | 88 | 5.501.778 | 94 | 5.514.409 |
| 2008 | 30 | 1.621.690 | 32 | 1.626.785 |
| 2009 | 23 | 1.202.890 | 24 | 1.204.743 |
| 2010 | 15 | 740.687 | 98 | 8.832.338 |
| 2011 | 9 | 197.367 | | |
| 2012 | 13 | 1.374.587 | | |
| 2013 | 10 | 716.020 | | |
| 2014 | 6 | 561.340 | | |
| 2015 | 34 | 5.206.659 | | |
| | 395 | 29.596.254 | 557 | 29.980.671 |

Diagram 3



Source: Data processing by the authors

Diagram 4



Source: Data Processing by the authors

Conclusions

This research has concluded in a most apparent fashion the dire consequences the amendment of Regulation 417/2002 has on the Greek – owned tanker fleet, especially should these measures expand to the category of vessels with trade capacity of 600 dwt and more (instead of the existing 5.000 dwt and more).

Proof of the fact that the above mentioned amendment was based on the logic of appeasing the general public and not on any results of scientific analysis is the imbalance that will be evident in the tanker market, which is expected to harm community traders and intracommunity traders of oil goods – of which their majority is seaborne.

Noteworthy is the fact that under certain conditions our country could benefit from a gradual – and not hastened – tanker retirement for the trade capacity category of 600 dwt till 6.000 dwt. Indeed a combination of motives and flexible strategy could have yielded the Greek yards a hefty part of the orders, a fact that till this day seems rather difficult if not impossible. Something like that could aid both the Greek shipbuilding yards and the Perama shipbuilding and shiprepair zone.

Finally, whatever the case maybe the above mentioned dire consequences can be cushioned since the opposition of many a shipping countries is expected within the frames of the International Maritime Organisation (IMO), that will have to either validate or rejection of the E.U proposed amendment of Regulation 417/2002 by the early December of 2003.

In the level of international organizations, IMO was based on the last Clarkson report – that acts as consultant to the IMO concerning the “Prestige” packet of measures effects – that was designed after a notion by the Greek shipping Co-operation Committee.

In detail the nine-page report on consequences regarding the possible implementation of the E.U. proposal for the hastening of retirement comes into three conclusions:

1. Based on the current E.U. proposal for the “Prestige” measures, 74% of the tankers will have to retire within two years. The most severe consequence will come at 2010 which is the final date for retirement of all single hull tankers from E.U. waters, when tankers of total capacity of 65,5 million dwt will be retired.

From the moment these vessels will be sent to scrapping facilities, on a far younger age than usual, it is highly unlikely that any vessel will be sold for scrap before the limiting dates of the time schedule. Thus everyone will make an effort to focalize on the last possible retirement date of 2010.

An characteristic sign of the “congestion” that will take place on the whole scrapping sector is the statistical element that the greatest capacity ever to have been recorded scrapped was in 1985 25,5 million dwt, which is by 40 million dwt less than what is expected for 2010.

2. This high concentration on 2010 will lead into “inflexibility” of the market. A result of the fact that the flexibility of the time when a ship is to be retired is crucial to the tanker market.

Oil trade remains an activity flexible, dependent on supply and demand of vessels. The concentrated retirement of vessels on 2010 will create high risks for a prolonged period of tanker shortage or oversupply.

3. On 2010 a total of 247 tankers, of 39 million dwt capacity will be retired with an age of less than 20 years with direct consequences to the finances of shipping companies and loan supplying banks.

Where banks that granted loans on companies investing on acquiring single hull tankers are concerned, they will have to reconsider their position since single hull tankers are already losing their value as their operational and profiting years are being reduced.

Shipowners on the other hand also watch their capitals shrink as their single hull tankers lose value. There are already signs of an impending downfall of monohull prices at the prospect of an adoption of E.U. measures.

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Utjecaj Plana EU o postupnom povlačenju brodova na grčku flotu

Sažetak

Nedavne pomorske nezgode (Erica i Prestige) potakle su EU da ubrza donošenje oštrijih mjera u svezi s povlačenjem iz plovidbe brodova bez dvostruke oplata.

Brodari se tome planu protive, ali nedavno je EU jednostrano odlučila ubrzati povlačenje brodova s jednostrukom oplatom iz plovidbe, što je izazvalo zabrinutost na tržištu.

Grčki brodovlasnici predstavljaju većinu na tržištu brodova cisterni kao vlasnici velikoga broja brodova s jednostrukom oplatom te stoga na odluku EU odgovaraju upućivanjem odgovarajućih predstavki

Međunarodnoj organizaciji rada.

U ovome se radu ispituju posljedice izmjene Propisa EU broj 417/2002 te primjene Propisa EU broj 1726/2003 od listopada 2003. na grčku flotu.

Očekuje se da će te posljedice ozbiljno ugroziti ne samo konkurentnost grčke flote, već i ukupnih kapaciteta koji se nude na svjetskom tržištu.

Ključne riječi: pomorska nezgoda, povlačenje broda iz plovidbe, dvostruka oplata, jednostruka oplata

Ripercussioni sulla flotta greca a causa del programma di ritiro graduale delle navi-cisterna previsto dall'Unione europea (Regolamento 1726/2003)

Sommario

Alcuni recenti sinistri marittimi (Erika e Prestige) hanno indotto l'Unione europea ad accelerare l'adozione di misure più severe riguardo il ritiro delle navi che non rientrano nella categoria delle navi a doppio scafo.

Gli armatori di navi a scafo semplice hanno sollevato forti obiezioni a questa prospettiva. Tuttavia di recente l'Unione europea ha deciso con mossa unilaterale di sollecitare il ritiro di dette navi creando notevole preoccupazione nel settore.

Gli armatori greci che partecipano in maggioranza al mercato delle navi-cisterna con un gran numero di navi a scafo semplice hanno reagito alla decisione dell'Unione europea presentando ricorso presso l'Organizzazione marittima internazionale.

Nel saggio si esaminano le ripercussioni sulla flotta greca in relazione all'emendamento dell'U.E. Regolamento 417/2002 e l'applicazione del Regolamento 1726/2003 dall'ottobre del 2003. Si prevedono gravi conseguenze non solo sulla capacità concorrenziale della flotta greca, ma ripercussioni a livello mondiale.

Parole chiave: sinistro marittimo, ritiro della nave, scafo doppio, scafo semplice

