

'Role of Documentation In Managing Petroleum Products Supply Logistics'



OTL AFRICA 2009
13TH & 14TH OCTOBER 2009

RED TAPE



Why the need for documentation?



- Every body knows that documentation and red tape is a conspiracy designed by government and quasi governmental organisations to prevent bona-fide businessmen from maximising the returns on their investments

Frequently Encountered Situations in the Nigerian downstream industry



- Local vessels prevented from taking cargoes from foreign flag vessels
- Inspectors prevented from boarding vessels
- Vessels prevented from discharging cargoes
- Sellers unable to collect monies owed by buyers

Frequently Encountered Situations in the Nigerian downstream industry



- All these problems are encountered because of needless bureaucracy and red tape



Frequently Encountered Situations in the Nigerian downstream industry



**OR ARE
THEY?**

Documentation and relevance to different sectors



Shipping

Shipping



- **Classification Society**

- A **classification society** is a [non-governmental organization](#) in the [shipping](#) industry, often referred to as 'Class'. It establishes and maintains standards for the construction and classification of ships and offshore structures
- Supervises that construction is according to these standards
- Carries out regular surveys of ships in service to ensure the compliance with these standards

Shipping



- **Classification Society**

- Originated in the second half of the 18th century as a means to enable underwriters to assess the quality of vessel they were asked to insure.
- Samuel Plimsoll pointed out
 - ✦ *“The ability of ship-owners to insure themselves against the risks they take not only with their property, but with other peoples’ lives, is itself the greatest threat to the safe operation of ships”*
- First Classification society was Lloyds in London who published a list of ships they insured in 1764

Shipping



- **Classification Society**
 - Is consultative to the International Maritime organisation and responsible for inspecting and certifying that vessels are constructed and operated to the minimum standard acceptable to the vessel owners underwriters.
 - ✦ Physically seaworthy by issuing , Hull and machinery certificates etc
 - ✦ Operated safely by issuing Ship management certificates and various other certification as mandated by the IMO Protocols such as SOLAS and MARPOL etc

Shipping



- **Classification Society**
 - In a nutshell, if ships class documents are out of date, then the under-writers may withdraw, or have withdrawn cover for the vessel.
 - If the Underwriters have withdrawn cover, the P&I Mutual club, may also refuse to provide cover.
 - This means that the vessel owners are not in a position to pay third party claims

Shipping



- **Classification Society**
 - Ship owners are not being uncooperative by refusing to allow vessels to come along side, which are un-classed either for Hull and machinery, IOPP or any other certificate and therefore uninsured
 - Ship owners are managing the risk associated with operating a multi-million dollar asset.

Shipping



- Q88 - Format

- The usefulness of this document is not appreciated
- It presents all a vessel information in a easy to read format
- One of the biggest problems is that Q88's are not kept up to date.
- Dates when certificates are renewed are not updated, Q88's with old preparation dates are sent out
- Giving the impression that certificates are expired when they are not.

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- Q88 – Format issue no 3
 - Currently format number 3 is in use, where as most Nigerian flag vessels are still offering format number 2.
 - Number 3, actually states the dates certificates expires and is being insisted upon by more and more internationally operated shipping companies.

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- **International Maritime Organisation**
 - Nigeria was a founding member and signed up to the International Maritime Organization in 1948, including amendments in 1991 and 1993.
 - In this time, Nigeria has ratified the following protocols and conventions

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- SOLAS convention and protocol
- Load line convention and protocol
- COLREG convention (prevention of collisions)
- CSC Convention (safe containers)
- STCW Convention (training and certification)
- SAR Convention (Search and Rescue)
- Inmarsat convention and amendments (Satellite telephones)
- Facilitation Convention (to provide a unified regulatory process for the efficient clearing of vessels)

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- Probably the most significant is
- MARPOL 73/78 protocol, annexes 1 to VI)



OILPOL was in place in from 1954
Torrey Canyon disaster 1967, led to
amendments in 1969 and 1971.
Marpol convention adopted in 1973
but not ratified until a second
conference in 1978

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MT ERIKA

(Vessel broke in half off the coast of France, 12 December 1999)



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MT ERIKA

- Erika was a disaster, she was carrying 30,000 MT's of Fuel oil.
- 19,800 MT's spilled and washed up on the beaches of Brittany, France
- 6,400 MT's and 4,700 MT's remained in the bow and sterns sections respectively when they sank.

Shipping



MT ERIKA

- Actual claims and payments
- 7130 claims, totalling euros 211 million
- 5934 claims approved, totalling euros 129.7 million

Shipping



MT ERIKA

- Compensation paid
- P & I club paid, euros 12.8 million, the maximum limit of its liability.
- Balance paid by International Oil Pollution fund.

Shipping



MT ERIKA

- Potential Compensation sources
- Vessels P&I insurance – Euros 12.8 million
- International Oil Pollution compensation fund 1992 – Euros 172 million

Shipping



MT ERIKA

- Whilst a disaster, the international protocols in place ensured that third parties that were affected by the disaster were compensated.

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- **January 2008, the Criminal Court held the following four parties criminally liable**
 - The ship-owner (Tevere Shipping). Fined Euros 75,000
 - The president of the management company (Panship Management and Services Srl). Fined Euros 75,000
 - The classification society (RINA). Fined Euros 375,000
 - Total SA. Fined Euros 375,000

Shipping



Relevant Documentation

- Civil Liability certificate
- IOPP certificate
- P & I Insurance certificate

Shipping



Relevant Documentation

- **Civil Liability certificate**
 - Evidence, provided by the vessels flag state, that owners have taken out the minimum insurance required under the Civil liability convention of which the flag state has ratified. Two conventions – 1969 and 1992
 - Currently Nigeria has signed up for 1969 convention
 - ✦ Owners should note, that the CLC limits the liability of the owners. Provided that the incident did not occur to the actual fault of the owner.
 - ✦ Without it, they have unlimited liability

Shipping



Relevant Documentation

- Civil Liability certificate (Limits of owners liability)
 - Vessels gross tonnage x 133 special drawing rights (SR)
 - ✦ or
 - 40% of cargo carrying capacity of vessel in tons of 2240 lbs (long tons) x 133 SDR
 - Provider evidence of ability to pay is available
 - ✦ Bank guarantee
 - ✦ Acceptable P & I insurance

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Relevant Documentation

- Civil Liability certificate
- Example (1969 convention), single incident
 - $5,000 \text{ MT's} = 4,921 \text{ Long tons} \times 40\% = 1968.4 \times 133 \text{ SDR}$
 - Value SDR on 8th October \$1.58783
 - ✦ (average of Euro/Yen/Pound/US Dollar)
 - Limit of liability \$415,550.70
 - $30,000 \text{ MT's} = 29526 \times 40\% = 11810.45 \times 133 \text{ SDR}$
 - Liability limit = \$ 2,521,680.00
 - Maximum liability = \$ 22,120,000 = 108,669.22 MT's

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Relevant Documentation

- **IOPP Certificate (International Oil Pollution Protocol)**
 - Is a document issued by the vessels classification society as a result of the Marpol protocol agreed by all member states in 1973, amended 1978, IMO convention
 - It is mandatory for all vessels over 450 tons GRT, and all tankers over 150 tons GRT to maintain an oil record book and hold an IOPP certificate.

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Relevant Documentation

- IOPP Certificate (International Oil Pollution Protocol)
 - Is issued by the classification society at time of building and has to be renewed every five years. The certificate requires revalidation at least once during the 5 year period. In addition, annual surveys are required.
 - No extension from the 5 year expiry or annual surveys are permitted
 - The certificate cannot be transferred from one flag state to another

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Relevant Documentation

- IOPP Certificate (International Oil Pollution Protocol)
 - The scope of the initial inspection covers
 - ✦ Oil discharge and monitoring equipment
 - ✦ Crude oil washing manuals (where applicable) (COW)
 - ✦ Dedicated clean ballast tank operation manuals (DCBT)
 - ✦ Ship board oil pollution emergency plan (SOPEP)

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Relevant Documentation

- IOPP Certificate (International Oil Pollution Protocol)
 - Annual inspection includes verifying that the existing IOPP certificate is still valid. (No extensions are permitted)
 - covers the functionality of ODM (oil discharge monitoring equipment) and that type approvals for the equipment are in place and valid
 - Verifies that mandatory records being kept.
 - ✦ Eg. Oil Record Book
 - That all manual are on board, and that the SOPEP is in a language understandable by the crew

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Relevant Documentation

- IOPP Certificate (International Oil Pollution Protocol) and CLC (Civil liability certificate)
 - Are linked, the IOPP certificate certifies that a vessel has the means and procedures to minimise the risk of oil pollution
 - Where as the CLC ensures a minimum level of compensation to innocent third parties in the event that a pollution incident occurs

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Relevant Documentation

- **Protection & Indemnity Insurance**
 - Commonly known as **P&I**, is [marine insurance](#) against third party liabilities and expenses arising from owning ships or operating ships as principals. It is distinct from other forms of marine insurance purchased by ship-owners such as hull insurance and [war risk insurance](#).

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Relevant Documentation

- **Protection & Indemnity Insurance**
 - Personal Injury, crew, stevedores, passengers
 - Personnel effects, Diversion expense, life salvage
 - **Collision liabilities**, loss or damage to property other than cargo
 - **Pollution**, Towage contract liabilities, liabilities under contracts and indemnities
 - Wreck liabilities, cargo liabilities, Fines, legal costs

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Relevant Documentation

- Protection & Indemnity Insurance
 - Is **not** hull insurance, war risk insurance, loss of profit/freight insurance, detention insurance, strike insurance or uninsured legal expense cover

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- ISPS (International Ship and Port facility Security code)
 - ✦ An amendment to the Safety of Life at sea (SOLAS) convention (1974/1988)
 - The IMO states that “The international Ship and Port facility security code (ISPS Code) is a comprehensive set of measures to enhance the security of ships and port facilities, developed in response to the perceived threats to ships and port facilities in the wake of the 9/11 attacks in the United States”
 - The recent attack on the ATLAS COVE facility reinforces the importance of these protocols

Shipping



Relevant Documentation

- ISPS (International Ship and Port facility Security code)
 - ✦ There are no specific measures, but the code requires that ships and ports have
 - Security plans
 - Security officers
 - Company security officers
 - ✦ In addition, ships and port facilities are required to:
 - Monitor and control access
 - Monitor the activities of people and cargo
 - Ensure security communications are in place

Shipping



Relevant Documentation

- ISPS (International Ship and Port facility Security code)
 - ✦ One of the consequences of this code is that charterers inspectors can no longer roll up to a vessel and demand access.
 - ✦ Unless pre-arranged , access WILL be refused.
- In the event of a loss, the charterer cannot claim that lack of access to a vessel constitutes evidence of impropriety on the delivering vessel. The master is only complying with international law.

Shipping



Relevant Documentation

- ISPS (International Ship and Port facility Security code)
 - ✦ Why vessel owners insist on ISPS compliance
- The ISPS code is now considered part of the documentation required to evidence a vessels sea worthiness.
 - ✦ ISPS requires audits to evidence adherence to the code. This is certified by the issuance of an international ship security certificate (ISSC).
 - ✦ Consequences of non ISPS compliance can include non admittance to ISPS compliant ports.
- Shipping companies will not risk their trade for a bolshy inspector

Shipping



Relevant Documentation

- ISPS (International Ship and Port facility Security code
 - ✦ A very valid quotation in this instance is
- Lack of preparation on one part, does not constitute an emergency on another's.
 - ✦ This point has been hammered home time after time, but some how it always seems to be the suppliers fault

Shipping



Letters of Indemnity (LOI's)

- Frequently, letters of indemnity are offered in lieu of missing documentation.
 - ✦ Unless, this is backed up by a financial or legally enforceable guarantee, the LOI is worthless.
- All documents have been requested for a reason.
- They are evidence that the holder has
 - a) a viable vessel
 - b) the competence to operate it.
 - c) the ability to compensate in the event that points a) and b) have not prevented a loss or injury to a third party.
- An LOI does not exonerate the issuer “or” the holder from their liabilities

Insurance



Cargo Insurance

- **Has any body claimed off this??!!**
 - Every body pays it, it is a requirement for all LC's opened through Nigerian banks
 - To my knowledge, very few company's bother to claim.
 - Insurance companies will always try to recoup their losses where possible
 - **AS THEY SHOULD!**
 - If you have a cargo loss, claim off the insurance, let your insurer do the work.

Finance



Cargo Insurance

- If claims are pursued properly
- Cargo inspection standards will improve
- (insurers will have to be able to rely on them, as a result a minimum standard will have to be maintained)
- Cargo losses will decrease as the causes of the losses will be identified

- Reliable and demonstrably reputable ship owners will get the business

Finance



- **Cargo Insurance**

- Insurers have a responsibility to their policy and share holders to minimise losses and consequently improve their balance sheets
- Cargo inspection standards will improve
- (insurers will have to be able to rely on them, as a result a minimum standard will have to be maintained)
- Cargo losses will decrease

- Reliable and demonstrably reputable ship owners will get the business

Recent Events



- Recently several ships have been arrested for alleged infringement of cabotage laws.
- Local ship owners are getting fed up with foreign ship owners loading cargoes, whilst Nigerian ships stand idle.
- This despite Foreign flag vessels costing N 3 times as much to charter as the local vessels
- Why would any charterer pay 3 times as much as he has to compared, unless there is no other choice.

Recent Events



- Supplies of petroleum products are at serious risk.
- Ship owners are getting stricter in their demands and insisting that the lightering vessels are in compliance with international Protocols.
- Meanwhile , the local opinion is that they don't understand the local situation.
- This standoff WILL disrupt supplies.
- NIGERIA has signed and ratified all the agreements in this presentation.

Recent Events



- The market level for freight costs has been determined.
- If charterers are willing to pay over 4 Naira per litre, surely the revenue justifies complete compliance with the protocols that Nigeria has signed up.