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Can Shipping Meet Global and US Energy Needs?

Shipping – the “can-do” industry

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Good morning everyone.

Those of you familiar with the Mare Forum format will know we don't get much time up here so I will cut straight to the chase.

The day's theme is "Can Shipping Meet Global and United States Energy Needs?"

The short answer is "Of course" and I doubt that there is a single dissenting voice in the room.

I must admit I am a little bemused by the topic itself.

It appears to overlook the fact that demand for shipping is a derived, not a direct demand.

Quite simply, shipping has and will continue to respond to the global demand for energy by moving the required raw or processed materials in the most cost effective, safe and environmentally aware manner.

It is immaterial to the shipping industry whether the demand is for oil, bio-fuels, coal or gas.

We will move it.

It is immaterial to the shipping industry whether that oil sells for \$15 or \$50 or \$150 a barrel.

If the demand exists for the oil, there will be ships available to move it.

If market forces dictate that more gas will be moved, this industry has the technical competence, the operational know how and the financial wherewithal to build and run the ships needed to move it.

We have no better example of that than what has taken place over the last four or five years.

Orders have been placed for new LNG carriers that are almost double the size of those of the previous generation.

As a classification society, we have been deeply involved in the development of these designs which has required an enormous amount of very sophisticated analysis of factors such as sloshing impacts, structural strength and vibration.

We have applied sophisticated hazard identification analyses to the alternative propulsion systems that have been proposed – and subsequently selected for these ships.

We have put together the industry's most comprehensive training program that covers all facets of LNG carrier design, construction and surveying.

This course has already trained hundreds of people from the shipyards, from our clients and from our own staff, swelling the ranks of competent individuals available to oversee the rapidly expanding fleet of gas carriers.

Owners who have traditionally operated in the bulk and tanker markets, have seen the opportunities that the growth in gas transportation has offered and have invested billions of dollars in these ships.

They have staffed up with properly trained personnel and are already meeting that derived demand for gas shipping capacity.

There is nothing new in this. Shipping has always been the “can-do” industry.

We are often, to my mind wrongly, labeled as being a conservative industry.

We are not. We are highly responsive to the market.

The history of innovation is remarkable.

It not only encompasses increases in ship sizes in virtually every sector, but also remarkable ingenuity in the types of ships and offshore structures, in the materials that are used, in the propulsion plants that have been developed.

This is true of every sector – look at how the old general cargo ship has evolved into the container fleet, the car carriers, the ro-ros and specialty forest product carriers of today.

The issue is really very simple. For the foreseeable future, the global demand for energy will continue to increase.

The balance of that energy supply will vary from nation to nation and region to region. Nuclear, for example, may be acceptable in France but not in the US.

Alternatives such as bio-fuels, wind power and solar will not, in the immediate future, replace traditional resources such as oil, gas and coal.

Regardless of the geo-political implications of sourcing some of these resources, the vast majority will continue to be moved by sea.

At present in excess of 2 billion tons of oil are moved by ship every year. There is no immediate substitute.

The shipping industry has, and will continue to build and offer adequate numbers of appropriate tonnage to move these resources.

What we have little or no control over is the rest of the supply chain, starting with the terminal facilities.

Many LNG terminals have been proposed.

Some have received regulatory approval and are under construction.

Others have encountered local resistance based on concerns over the perceived environmental threat that such facilities are thought to pose.

Such ill-informed concerns are understandable, although completely unfounded.

But the net result is that the ultimate planned movement of the cargoes will not be affected.

Other terminals in the US, in Canada or Mexico or offshore will be available.

The alternative of using offshore terminals is an example of how the industry has used technical innovation to meet a need.

Class has played an important role in analyzing the many unique technical issues involved and we, at ABS, have established and published specific technical standards for such facilities.

Yet the proposed gas receiving terminal offshore from Malibu in California faces vigorous opposition from local citizens.

This NIMBY – or Not in My Back Yard – approach of US citizens to essential industrial development is not surprising.

Some industries have a record that is less than honorable.

And citizen pressure on politicians and regulators can be effective.

There is perhaps no better illustration of the latter than the consequences of the Exxon Valdez and the replacement of the entire global fleet of single hull tankers with a new generation of double hull vessels.

This sort of pressure has resulted in zero tolerance for damage to the marine environment in many areas of the world, most particularly Europe and the US.

But this pressure has not halted, or even diminished the volume of oil being carried.

What it has done is encouraged the shipping industry to further raise its safety and operational standards to meet that target, led by the very pro-active approach adopted by Intertanko.

We have not yet reached the goal of zero marine pollution incidents and, human nature being what it is, we never will. Perfection is simply not possible.

But the industry's safety record has improved dramatically and will continue to improve in the face of public pressure, increased regulatory oversight and a genuine commitment on the part of the vast majority of shipowners to a process of continuous improvement.

What we all need to recognize is that, as we move forward, we are implicitly or explicitly trading off one risk for another.

At the most basic level there is the need to maximize commercial returns while, at the same time, operating safely and providing appropriate protection for the often fragile marine environment.

The capital investments involved, the financial risks of downtime and the environmental risks of failure are now so great, that this issue of safety is a dominant factor influencing every aspect of the marine transportation of energy.

The increasing complexity of the ships and facilities is creating risk exposures that demand more analysis and more comprehensive and systematic approaches to risk management.

Safety is no longer a seat of the pants element.

It must be built on the foundation of historical experience, on analytical methods, on knowledge and on judgment.

It must be grounded in the principles of risk and must be integrated and aligned throughout the entire lifecycle of a project, whether it is a ship or a terminal.

This is the area in which classification can and does play a vital role.

We are able to offer the necessary assistance to operators venturing past known frontiers, and provide technical validation for the novel concepts that will be used to transport energy resources in the future.

Class is able to help the energy industry transform complicated risk pictures resulting from boundary pushing projects, into quantifiable and systematic solutions that address structural and mechanical integrity management requirements, without compromising the need for safe and environmentally sensitive operations.

Examples of this can be seen in the last 10 years as the industry has moved from experience based or prescriptive standards to 1st principles based standards and now, increasingly, to risk based standards.

This evolution has been underpinned by both the scientific rigor of risk technology as well as the computing horsepower that has allowed us to more fully understand the load and response of a given structure.

The technology is there to support our and your future decision making

And it is our past successes and safety track record that give us the confidence to assist the shipping industry meet the global energy needs of the future.

Thank you