

**Written Statement of
The American Petroleum Institute
Before the Commerce, Science, and Transportation Committee
United States Senate
January 9, 2003**

The American Petroleum Institute (API) is a national trade association representing over 400 companies involved in all aspects of the petroleum industry. A significant number of API member companies own, operate, and charter substantial tanker fleets. On their behalf, API would like to take this opportunity to respond to your questions and concerns regarding the recent *MV Prestige* oil spill incident off the coast of Spain. We would like to address the protections offered to this country by the passage of the Oil Pollution Act of 1990 (OPA) and to emphasize additional measures that API and its member companies have taken to improve the integrity and safety of the marine transportation system in the United States.

API has testified before Congress on a number of issues relating to OPA. We specifically addressed the topic of OPA's double-hull requirements for tank vessels, during a hearing of the U.S. House of Representatives' Committee on Transportation and Infrastructure Subcommittee on Coast Guard and Marine Transportation on June 29, 1999. API has aggressively supported the highest technical and safety standards for tank vessels and, on behalf of its Marine Transportation Segment members, have taken very seriously our role in safely and efficiently transporting the oil needed to meet America's energy needs. We remain committed to the tanker requirements of OPA, which mandate when a vessel must either be retrofitted with a double-hull or retired from U.S. service.

As a direct result of the *MV Prestige* incident, the European Commission proposes an immediate prohibition of single-hull vessels of 600 tons deadweight and above from the transportation of heavy fuel oil, heavy crude oil, waste oils, bitumen and tar into the ports of the 15 European Union (EU) member States and also proposes an accelerated phase out of all single-hull vessels for the transport of all types of oil. Since December 12, 2002, the Spanish and French governments have taken a further step in banning single-hull tankers, built more than 15 years ago, from sailing within 200 miles of their coastlines unless such vessels submit to extensive inspections by the port states.

The double-hull provisions of OPA have significantly changed the oil transportation industry, both domestically and abroad. The international community followed the U.S. lead by adopting similar requirements through amendments to the International Convention for the Prevention of Pollution from Ships (MARPOL). Since 1993, international law has required that all large, newly constructed tankers be built with double-hulls. According to INTERTANKO¹, well over 50% of the world's fleet carries double-hulls as we enter 2003.

Vessels that are directly owned or chartered by the major oil companies or their affiliate organizations transport a significant volume of crude oil and petroleum products to the U.S. As part of their respective safety management system, organizations employ or subscribe to a vessel screening and inspection process (vetting) when selecting third

¹ International Association of Independent Tanker Owners.

party vessels to transport cargo. Typically, the vetting and screening process includes a review of a third party's management system and compares the nominated vessel to marine safety criteria which is based on recognized safety standards established by regulatory authorities and reputable maritime organizations. Oil company tanker fleets must meet the same high standards as these chartered vessels.

Members of the U.S. maritime industry have and will continue to take delivery of new Jones Act double-hull tankers (U.S. owned, built, flagged, and crewed with U.S. documented seafarers) to maintain compliance with the provisions of OPA and to keep pace with tonnage requirements. However, the number of Jones Act tankers will remain a relatively small portion of the total tanker fleet that delivers crude oil and petroleum products to the U.S. Today, the U.S. consumes almost 20 million barrels of oil daily. We import 55% of the crude oil and petroleum products we consume. Of this total, 10 million barrels per day are transported to the U.S. by non U.S.-flag tankers.

In early November 2002 API responded to a letter of inquiry from six U.S. Senators, relating to the 25-year phase-out schedule of OPA and concerns over the number of shipbuilding orders to serve coastwise or Jones Act oil transportation trade in the near future. As much of the discussion on the petroleum industry's conversion to double-hulls has focused on the U.S. tanker fleet, we offer the following observations about the two primary and distinctly different trades that affect U.S. flag tonnage - Alaska North Slope (ANS) crude and the U.S. coastwise petroleum product market:

Alaska North Slope Crude Trade

The number of tankers needed to transport Alaskan North Slope (ANS) crude to West Coast refineries is declining. Still, several double-hull tankers have been introduced to this trade and several others are being built in accordance with OPA's phase out schedule. More specifically, a fleet of 25 Jones Act tankers is currently engaged in the transport of ANS crude oil. Nine of these tankers have double-hulls. Seven (or 11 if all options to build are exercised) additional double-hull tankers will be added to the fleet when the new Polar Tankers² and Alaska Tanker Company³ crude tankers ordered and under construction are delivered by 2008. In addition, SeaRiver Maritime, Inc.⁴ is currently evaluating its needs.

As you know, production of ANS crude oil has declined from 1.8 million barrels per day in 1990 to 1.0 million barrels per day in 2002. The Alaska Department of Natural Resources forecasts that ANS production will steadily decline to about 577,000 barrels per day by 2016, resulting in a corresponding reduction in needed tanker capacity. Based on the production from existing fields, average utilization of tankers and recent shipping patterns, API's analysis found that the capacity of the existing and planned fleet

² Polar Tankers is owned by ConocoPhillips.

³ Alaska Tanker Company is a newly formed "pool" operator formed between BP, Keystone Shipping, and OSG.

⁴ SeaRiver Maritime, Inc. is a wholly owned affiliate of Exxon Mobil Corporation.

should be sufficient to meet the projected ANS production (see Figure 1) as single-hull vessels are phased out under the mandated OPA timetable.

U.S. Coastwise Petroleum Product Trade

Again, while faced with decreasing demand for petroleum product tankers, industry has invested significant resources to construct new double-hull product tankers. According to the U.S. Maritime Administration's (MARAD's) most recent statistics, there are currently 64 available tankers to operate and move products along the U.S. coast. Twenty-two are double-hulled. However, U.S.-flag tankers continue to move a diminishing amount of product, particularly between the Gulf Coast and East Coast. Since the 1980s, there has been an ever-increasing use of domestic pipelines, movement of product imports on foreign flag tank vessels, and an increased deployment of double-hull coastal tank barges. (Coastal tank barges have become more attractive as the cost for new product tanker construction continues to escalate.) These trends are expected to continue, primarily because of the disparate cost of new U.S. product tanker construction (approximately triple the cost of a similar foreign built vessel).⁵

Currently there is excess capacity in the U.S.-flag product tanker market. In 2000 (the latest data available from MARAD), of the 64 U.S.-flag product tankers, only 53 were engaged in domestic operations. Ten could not find cargo to haul in the domestic market and were deployed by their owners to the international market (where they were at a distinct competitive disadvantage); another was idle. Moreover, the U.S. coastal tank barge fleet, which continues to become a competitive alternative to product tankers, is also under-utilized.

Congress, when it enacted OPA, recognized that the transition from a single-hull to a double-hull fleet needed to occur in an orderly fashion and without a condemnation of the substantial investment already made in the existing tanker fleet. Congress provided a 25-year period to retire single-hull vessels. Thanks to the foresight of the drafters of OPA, the energy supply chain has not been disrupted as a result of this legislation. This was a risk-based decision that balanced economic and supply chain considerations with the oil-spill risk reduction potential of double-hulls. It is worth noting the wisdom of this decision. The transition has been and we expect it to continue to be orderly.

The value of double-hull tanker designs has been evaluated and supported by the National Research Council (NRC). Their 1991 report, *Tanker Spills – Prevention by Design*, concluded that the double-hull design is among the best values on the basis of cost-effectiveness. The findings of this report are consistent with the operational experiences of double-hull tankers and the overall improved environmental performance record of the tank vessel industry.

However, we believe that safe marine transportation, as a system, goes beyond hull configuration and that each component of this system (including regulatory oversight, the

⁵The cost of a foreign built product tanker is approximately \$30 million and a U.S. built is approximately \$90 million.

vessel's maintenance as well as the competency of its crew, and port infrastructure) plays a vital role in the system's success. Double-hulls provide protection from low energy collision and grounding. They are not a substitute for proper standards of management, operation, maintenance, and corrosion control.

The question of whether the *MV Prestige* incident could have been prevented by a double-hull requirement presupposes we know why the *Prestige* incident occurred. That question has not yet been fully answered. Although several possibilities are under investigation, none lead to the conclusion that a double-hull design would have prevented the incident. The *Prestige* was in trouble days before her catastrophic failure and had requested help and refuge from Spanish authorities. It was declined entry to a port of refuge and sent back out to sea in deteriorating weather.

It is important to keep in mind that while the double-hull design is good, hull design alone will not prevent all oil spills. More important than hull design are good management, proper maintenance, and correct navigational decisions. Detailed attention, by Classification Societies to vessel structure and then to Special Survey repairs, together with comprehensive Port State Control inspections and the use of industry and other databases (such as the OCIMF SIRE system and Equasis), will greatly reduce the risk of such environmental incidents.⁶

Beyond OPA – An Improved Industry Record

To date, 75% of the world tanker fleet is independently owned. To ensure that vessels and their crews are of the highest quality, tankers are subjected to a series of rigorous inspections by government, vessel classification societies, and the industry. For example, all tankers operating in the U.S. are evaluated for inspection by the U.S. Coast Guard. Since July 1998, vessels are required to have a certified International Safety Management (ISM) system in place. Our companies conduct pre-hiring inspections of independent tankers using trained inspectors located throughout the world. These inspections go beyond governmental requirements and often extend to the tanker's management structure.

As a result of numerous international and U.S. requirements and industry practices, the tankers calling on U.S. ports, both domestic and foreign-flagged, are the best-maintained commercial ships in the world. For example, less than 1% of tankers inspected by the Coast Guard are detained, which is the lowest percentage of any vessel type. Furthermore, Coast Guard data shows the dramatic reduction in oil spills from tankers since the enactment of OPA. For the period 1981 to 1990, tankers released an average of 70 thousand barrels per year. However, for the period 1991-2000, releases from oil tankers averaged 4 thousand barrels per year - a decrease of 95 percent!

⁶The Oil Companies International Marine Forum's (OCIMF's) SIRE system and Equasis -- the European Commission's /French Maritime Administration's cooperative information system, which collates existing safety-related information on ships from both public and private sources and makes it available on the Internet -- are examples of such databases.

Tankers deliver the oil and petroleum products we depend on, and the nation depends on tanker operators to do their job safely. It is a responsibility that each of our members considers paramount to their success (see Figure 2). Our members will continue to ensure they secure adequate capacity to meet their own transportation requirements and the energy needs of this country.

Actions of the European Union (EU) and Impacts on U.S. Trade

It is difficult to determine at this time the exact economic impacts that the EU actions (banning heavy oil shipments in single-hull tankers and accelerating the phase-out of single-hull tankers) might have on U.S. trade. Demand for new, well-maintained, double-hulled tankers to haul heavy oil will likely increase, placing upward pressure on chartering rates for these vessels. Finally, the impact of the more general accelerated phase-out schedule is difficult to assess. However, to the extent that phase-out schedules differ from one part of the world to another, the tanker market may become segmented and operate less efficiently.

In the long-term however, we have concerns over the port of refuge issue emanating from the *MV Prestige* incident. This important topic has the potential to impact trading decisions by U.S. companies. API strongly believes that the development of programs and standards relative to this issue should be directed toward the entire world fleet, via an international body such as the International Maritime Organization (IMO), and not attempted on a unilateral port state by port state basis.

Conclusion

Over the past 12 years, the oil and tanker industries have demonstrated that they can safely supply America with petroleum under the provisions of OPA. This oil fuels our transportation systems, heats our homes, powers our industry, and contributes substantially to America's high standard of living. The industry is converting its tanker fleet to double-hulls in compliance with OPA and MARPOL. By 2015 the tanker fleet that calls on U.S. ports will be double-hulled. API supports the double-hull conversion schedule in OPA, and no additional action by Congress is necessary to ensure that this conversion will take place.

API and its members are dedicated to ensuring that the oil we all use to go about our daily lives is delivered safely. Since 1990, there have been no major environmental incidents involving tankers in U.S. coastal waters and a substantial reduction in smaller incidents has also occurred. This can be credited to improved industry operations, technological advancements, enhanced risk management tools, international enforcement of tanker regulations (for foreign tankers calling on U.S. ports), and modernization of the tanker fleet, including the double-hull requirements.

We continue to support the excellent environmental and safety improvements made to date through OPA and industry initiatives. We continue to strive for 100% safe delivery of petroleum and petroleum products.

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Thank you for the opportunity to share these important views with the members of the Senate Commerce, Science, and Transportation Committee.

FIGURE 1

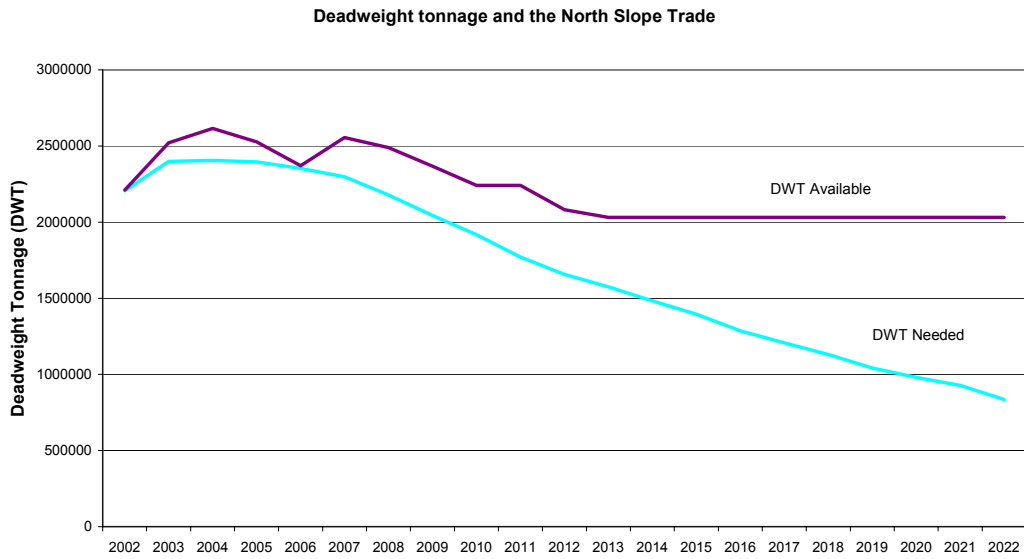


FIGURE 2

