

Having grown up in the bayou country of South Louisiana, I have always been interested in boats. Today, I often spend my free time in fishing boats while my professional life consists of managing a fleet of dredging vessels ranging from smaller inland excavators to the largest dredging vessel in the United States, the hopper dredge, "Stuyvesant".

I am here today to talk about the advantages to a vessel owner for retaining the services of a classing society even though it is not mandatory for all owners. While I am not an expert in the regulatory and classification rules, my experience with vessels gives me a perspective on these issues.

Classing societies are independent agencies focused on the safety of shipping. First established in the 1700s, these societies have developed a significant body of knowledge of marine engineering through tracking the evolution of shipping over the years. By participating in the design and construction of a vessel and inspecting it throughout its service life, classing serves as an assurance that a piece of equipment has met their standards for structural integrity.

R. M. Bradley of the IACS defines Classification as "a process through which the principal standards for the construction of ships and their essential engineering systems are developed and compliance with those standards is certified through design appraisal and surveys during construction and periodically throughout a ship's life". He further states that "the role has widened over the years to include the performance of statutory certification services on behalf of many governments".

While they do not design ships, classification societies review and approve owners' plans while endorsing the quality of materials and workmanship that goes into the vessel's construction.

Classing societies also offer technical advisory services to ship owners and operators. Because of their global experience, classing societies formulate their rules by consulting with owners and are able to share results and provide engineering guidelines to problems encountered internationally. These organizations devise preventative mechanisms and adopt them to their rules.

The maintenance of accurate records of ship repairs is another function of classification societies. They are able to accomplish this by maintaining all inspection information in their database. This service is invaluable to an owner in that it is the official status of required dockings and other maintenance obligations.

Classing is usually required only for large international cargo vessels and is generally optional for most other vessel owners. The societies, however are

more and more acting on behalf of the governmental regulators assuring that equipment meet their requirements.

The ownership and operations of a vessel involve meeting the needs of many stakeholders. These include but are not limited to the owners, the crews, the regulating governments, the designers, the builders, the banks, the underwriters the customers and to a growing extent, the public. The question is whether or not, or to what extent the classing society will be involved. Each of these stakeholders has concerns and needs depending upon their participation in the vessel's activities.

The owner is the planner and organizer of a vessel investment program. He makes most of the decisions during the process, and he has the greatest risk and exposure with the investment. As the process develops, he must, early on, decide whether or not to pursue class for the vessel. Other decisions include purpose, type and size of the vessel. He must determine the flag country and the area of operation, which will establish the regulatory environment involved.

If the vessel is a 'standard' model, he simply picks the type and style constructed from a proven design. But, if he is seeking an innovative equipment plan, he is then faced with the selection of a designer.

Another determination involves the performance of the vessel under consideration. In the case of a pleasure craft, it may be speed, comfort; or perhaps "status" that he values. In the case of a commercial vessel, an owner usually seeks financial gains. To achieve profits, he must thoroughly understand the market requirements in order to be competitive. Generally, it requires productivity, efficiency and reliability.

Finally, and perhaps most importantly, the owner must consider the preservation of his investment by ensuring the durability and survivability of the vessel.

Another stakeholder involved in the operation of a vessel is its crew. Vessel personnel are interested in the short term survivability as well as the long term durability and productivity of the ship. They are concerned that the equipment is properly designed and reasonably easy to maintain. Safety is always a crucial issue for vessel employees.

The Flag and Port Governments who impose the regulations on the shipping industry are an additional group of stakeholders to consider. Imposed regulations are not vessel designs, but merely minimum requirements. These standards are thresholds, not ceilings. Merely meeting the requirements will not exonerate an owner from fault nor will it create a partnership between the owner and the regulator where risks are shared.

The owner, the designer and the builder must develop a comfort that the outcome of the design will meet the objectives over the expected life of the vessel. While the definition of the ship's quality must be characterized by the designer, the objectives of all three parties must be detailed in the specifications of a contract. While the designer's experience and reputation are essential, there must be a clear understanding of the quality levels to be achieved.

Financial institutions expose themselves though lending to the vessel owner a portion of the construction cost. First and foremost, these institutions depend upon an owner's financial viability. Because they are repaid over a long period of time, these stakeholders rely upon the vessel's long term reliability, durability and performance---factors which help ensure the investment's profitability.

While financial institutions have a long term view regarding the investment of a vessel, the insurance underwriters may find themselves exposed for shorter terms. They are primarily concerned about the owner's liquidity and the survivability of the vessel. Poor financial health of an owner leads to less maintenance of the vessel and ultimately more short term exposure.

The customer as a stakeholder is another important concept to consider. Given the fierce competition within their markets, shippers and charterers are focused on the operational reliability of vessels. The customer is concerned with the durability and survivability of the vessel, and also very important is the cost factor involved to remain competitive in his market.

Now, more and more, the public has become a stakeholder in our businesses. Their interest revolves primarily around the concepts of safety and environmental protection. Their tolerance for casualties seems to be declining at the same time the safety record of the maritime industry has shown significant improvement. In this context, the public does not want vessel accidents to occur, and even more so, we see negative reactions from the public (and understandably so), when these casualties are publicized so widely in the media. Given this fact, the owner has no choice but to recognize and prepare to meet their concerns.

Why might each of these stakeholders that I just mentioned look to "classing" to address any of their concerns?

Today, fleet ownership is much more fragmented than in the past. Companies are focusing their resources on the core competencies and are tending to outsource more and more. Engineering and design fall into this category. When relying on outside designers, having the classing society act as an independent third party approver, gives the owner comfort.

Owners today are consistently challenged by competitive forces within their markets. Therefore, there is pressure to optimize the design of vessels to minimize the initial cost of construction. This generally results in the minimization

of materials during construction which can reduce the margin for error. Furthermore, as these vessels age, they must be closely monitored because of the deterioration that inevitably occurs. More than ever, these optimal designs require the attention provided by the classing societies.

As the owner, designer and builder work together to establish quality levels regarding design and construction of a vessel, classing societies become important. The rules established by these societies become the universal language of shipbuilding adopted by all three parties.

Further, classing societies modify their rules in order to keep pace with the most current developments in marine engineering. They also track developments in materials and components used in vessels allowing owners to take advantage of the latest changes in the industry.

The formal recordkeeping of the classing society provides a check on the owner's staff regarding maintenance of the vessel. While the staff maintains more detailed records, the vital information in the formal database provides an added level of comfort.

Often classing societies are a resource to owners through their technical consulting services. Some go so far as to provide formalized operational management software. A tool such as this acts as a technical support service by assisting in the management of regulatory requirements, personnel administration and vessel maintenance programs.

The classing societies can be a partner with an owner whose vessels comply with certain standards. They can be an advocate with these owners by standing with the owner when the need arises, whether it is by issuing certificates, administering day to day management or by reacting to a casualty.

In addition, whether or not a vessel is classed may dictate its ability to perform work on a certain job. By contract, a ship owner may be required to furnish a classification. Therefore, classing plays a role in allowing owners to remain competitive in their markets.

As we have said, crews are a vital part of the successful operation of a vessel. Since the interest of vessel personnel focuses on the commitment of the owner to provide a safe working environment, classification becomes an important issue for them. Well designed and properly maintained vessels are safer and generally more attractive to the highly qualified employee, thereby providing a larger pool of talented applicants of ship crews.

Rules governing vessels usually are imposed by Flag and /or Port countries. Classing societies track changes in these rules and often substitute for the

regulating agencies in assuring compliance. In essence, their expertise relieves the agencies from the obligation of having these scarce resources in house.

As the financial institutions are concerned with the long term profitability of the vessel, they might look to the classing society to verify the ongoing repair and maintenance of the vessel. By verifying that the vessel is regularly inspected and properly maintained according to “class”, the financier is more confident that his exposure is minimized.

As with some of the regulators, Insurance Underwriters substitute the expertise of classing societies for resources they would otherwise have to develop in house. They would like to trust the owner’s judgment, based upon his experience, but the concurrent independent review is vital. The validation that a vessel has met certain design standards regarding safety, and the fact that a piece of equipment is maintained “in class” obviously affects the evaluation of the risk involved. Further, in the event of a casualty, a vessel built and maintained “in class” is more easily defended in third party liability claims.

Because customers are focused on how the vessel affects their business, reliability is a very important consideration. Classing guarantees that a piece of equipment meets qualifications regarding safety in its systems, physical condition, and operations. Shippers and charterers are usually willing to pay a premium for a vessel in Class. Class gives a strong indication that the owner is financially viable and reliable, both attributes appreciated by his customers. Furthermore, there is a perception that a vessel in Class is more reliable and more likely to perform on time and without complications.

Regarding the benefits of classification as it relates to the public interest, allow me to relate a bit of history.

Prior to the 1960’s, our news sources consisted of primarily newspapers and public service programming provided by the major TV Networks. During the 1960’s, a US TV network initiated a program called “60 Minutes”. The success of this program made the network management realize that they could “profit” from the news. The other networks came to the same conclusion and soon thereafter, we saw the introduction of an all news network, CNN. Today, there are perhaps dozens of such outlets competing vigorously for advertising revenues.

We have all benefited from the greater emphasis on bringing events to our attention, but unfortunately, there has been a down side. Competition within the news provider industry has expanded so greatly that much of it has morphed into entertainment. The demand for real “news” is forcing participants to seek and in some cases create “scoops” wherever they can.

While no one wants to hide facts, we also want fair and unbiased reporting. In today’s environment, we cannot be assured of being treated fairly by the media.

Their penchant for controversy puts us all at risk of being victimized by insinuations and half truths. For that reason one wants all the protections he can reasonably obtain. Class is one of those protections in that it is the highest standard available in the maritime industry. Without class, a vessel owner would be very hard pressed to explain to an uninformed interrogator that he has taken all reasonable precautions in the design and operations of his vessel should it be involved in a casualty. Negative public opinion, depending upon the substance of the owner, can be devastating. Classification helps develop the public's perception that the owner has exercised "due diligence" in maintaining a vessel of the highest standards.

Class basically provides a stamp of approval, just as "the good housekeeping" seal is in my country or as the "Ralph Lauren" label is in the fashion world. It signals not only a functionality or style, but it also verifies quality and reliability. It can be a welcome ally against many claims that arise out of unfortunate situations.

As the distance becomes greater between the owner and the vessel's technical management, the need for independent oversight increases. In these cases, the company may look to the classing organizations for confirmation that the fleet is being properly managed.

I have spoken about how class affects the various stakeholders in a vessel investment. My comments would lead one to believe that class is indispensable to an owner. This may not always be true. There are additional costs associated with classing a vessel. It is estimated that the fees alone can be as much as 2% of the vessel's construction cost. Furthermore, the standards and certifications that the materials, machinery and workers must meet and hold can add additional costs.

Classing can add to the time required to bring a vessel to the market. The design reviews lead to revisions and additional reviews. The inspections can delay phases of the construction. While these delays occur, I don't see them as a significant excuse for forgoing class.

In the case of conversions, class is probably more necessary but can be much more difficult to obtain. The functional tradeoffs associated with modifying a vessel from one service to another can cause new challenges to be addressed by the designers and then ultimately by class. Because a conversion often brings new challenges, more time, and therefore more cost is associated.

In conclusion, I believe that the benefits of classing outweigh the costs. Given that the ever increasing regulatory requirements dictate that the vessel meet many of rules of the classing society, the additional cost of choosing to class is minimal when compared with the benefits.

Furthermore, the public perceives classed vessels to be safe vessels and this perception can shield the owner from many of the insinuations of guilt. Adhering to the rules of the classification societies tends to establish credibility within the marine industry. It may not always be necessary, but the greater the participation, the safer and more respectable our industry will become.