



Crane barge

Where a legal or contractual liability can be determined, P&I clubs have successfully developed alternative solutions for their offshore contractor members, such as the pollution from well extension, which can work, as the clubs have provided enough of a distribution mechanism to present a spread of risk to their reinsurers that would otherwise not be available to them. As such, it is perhaps natural also to question whether this could be achieved for 'damage to contract works' for a low limit or on a contingent basis.

Clubs can approach their reinsurers on a facultative basis for additional risks and if these clubs can obtain a quote, their purchasing power may confer some pricing benefit to club members. However, an equivalent damage to contract works insurance product has not yet manifested itself. With the reinsurers of offshore P&I clubs operating under increasing restrictions over the last two years, one can assume that further extensions of club cover into alternative product lines (i.e. energy/property damage covers) will probably not be achievable in the foreseeable future.

FPSOs in Asia Pacific



Charles D'Alton, Underwriter
Standard Asia
+65 6506 2864
charles.dalton@ctplc.com

The Asia Pacific region (APAC) has, in recent years, witnessed a surge in offshore field discoveries and start-ups. Of the seven global oil-producing regions, APAC has seen the most fields discovered and brought on-stream for the last 10 years. In 2011, approximately a third of global discoveries came from the APAC region. The emergence of the Australian and Vietnamese offshore sectors alongside China, Malaysia and Indonesia will ensure that the future for this sector looks bright.

Regional demand for floating production solutions has soared in the crude oil sector, where converted tankers are still the cost-effective norm, particularly in regions where the water depths are generally shallow. Perhaps the most exciting development is in natural gas, where the immense scale of projects such as Gorgon, Wheatstone and Ichthys have made larger, bespoke new building solutions more financially viable, such as Shell's *Prelude* FLNG.

It is a good time to be in FPSO construction in Asia. Keppel in Singapore is brimming with conversions and topside modules, and South Korean yards such as Samsung Heavy Industries (which is building the *Prelude*) are jostling for a piece of the action in building units 'from scratch'.

So, where can the Standard Club help at this early stage? Our offshore syndicate reviews over 180 construction contracts every year and can consult with our members on the liability exposures and pitfalls they may encounter. It is not unusual to see a hull being converted in Korea, then being towed to Singapore for topside integration. The topside elements will include machinery imported from all over the world. It is a complex process and the liabilities that flow from this reflect that complexity.



Singapore port

However, it is not all about FPSOs entering the market. The fact remains that many FPSOs are not redeployable after decommissioning, since the on board production and separation facilities are, in most cases,

unique to the hydrocarbons particular to an individual field. It is estimated that 33 FPSOs are nearing the end of their life and many of those are destined for scrap. This situation has a profound impact on P&I risk exposure. As FPSOs near their demise, the capital expenditure, injected by oil companies and contractors, and required for maintenance and upkeep, reduces. This inevitably results in an enhanced risk, especially with regards to the likelihood of a costly oil pollution and/or wreck removal incident. The club counters this risk through a rigorous survey programme designed to act as a second pair of eyes to highlight problems, such as structural deficiencies or a drop in operating standards, so that they can be rectified before resulting in a casualty and therefore cost for both member and club. Proactively gauging and managing operational risk is central to the club's philosophy.

In conclusion, the role of the FPSO or FLNG in the APAC region will be integral to offshore production solutions for the foreseeable future, and with careful safety and loss management and an intelligent survey programme, the liability exposures for such units can be controlled. For those seeking insurance for such units, the Standard Club can provide P&I cover up to a limit of \$1bn. In total, the club insures 57 FPSOs, of which two are jack-ups units and seven are tankers under conversion. In terms of market share, this represents 30% of the global fleet. To get a comprehensive idea of the full cover provided, the Standard Offshore Rules (SOR) can be found on the [website](#).

Definition of a ship – applicability of CLC 1992 and Fund Convention 1992 and 1976 LLMC to FPSO and FSU



Sharmini Murugason, Offshore Syndicate Claims Director

+44 20 3320 8832
sharmini.murugason@ctplc.com

This article examines the ability of a FPSO and a floating storage unit (FSU) to limit liability in a pollution situation under the Civil Liability Convention 1992 (CLC 1992), the International Convention on the Establishment of an International Fund for Oil Pollution 1992 (the Fund Convention 1992) and the Convention on Limitation of Liability for Maritime Claims 1976 (1976 LLMC), as amended by the 1996 Protocol.

There is no existing international regime, which can expressly, and with certainty, respond to pollution from these offshore units. The need to consider such an initiative had been tabled by the Indonesian Government at the IMO following the *Montara* oil spill offshore Australia. However, the most recent discussions at the IMO in April 2012 concluded that for national sovereignty reasons, pollution from offshore units were more appropriately dealt with by bilateral, multilateral or regional agreements, and that the IMO would commence work to provide guidelines for such agreements.

In the absence of an international regime, do the existing CLC 1992 and Fund Convention 1992 or the 1976 LLMC, which are for the benefit of the maritime community, extend to these offshore units when they operate off the coasts of signatory states? There is no clear legal guidance in the interpretations of these conventions. FPSOs and FSUs are increasingly being used in the offshore oil and gas industry and may pose a danger of oil pollution. Should these units be treated like tankers and also benefit from the limitation provisions in these conventions? The definitions of ship within the respective conventions governs these units' right to limit.



FPSO

FPSOs process hydrocarbons received from the seabed and the resultant oil or gas is stored until it can be offloaded onto an offtake tanker or transported through a pipeline to a terminal. FPSOs can be converted tankers or can be purpose-built, and their shapes can vary from being ship-shaped, to box-shaped barges with varying dimensions. As technology advances, so too do the design and capabilities of these units. They can be designed for the life of the field in which they are located. Some of them are designed to disconnect from their risers to avoid adverse weather conditions and a few are designed for grazing marginal fields and transporting the oil to refineries. However, once they are moored, they are considered to be permanently or semi-permanently attached to the seabed, albeit floating.