

**CIRCULATED TO ALL MEMBERS, BROKERS AND DIRECTORS
ATTENTION INSURANCE DEPARTMENT**

**8 MARCH 2006
CGT**

TOPIA 2006 AND STOPIA 2006

We refer to our Circular of 4 March 2005 advising Members that the Boards of all International Group Clubs had agreed to put in place a binding contractual agreement, known as STOPIA (Small Tanker Oil Pollution Indemnification Agreement), which has the effect of increasing the minimum limit of liability for smaller tankers under the 1992 Civil Liability Convention (CLC 92) to SDR 20 million. STOPIA operates by indemnifying the 1992 Fund for the difference between a tanker's limit of liability under CLC 92 and SDR 20 million. STOPIA took effect on March 3rd 2005 in recognition of the additional compensation obligation placed on oil receivers by the Supplementary Fund Protocol 2003 and in order to demonstrate shipowners' support for the successful compensation scheme established by the 1992 CLC and Fund Conventions.

When the 2003 Protocol came into force in March 2005, the Working Group which was set up by the 1992 Fund Assembly in 2001 to examine the possible need for revision of the 1992 Conventions had not been able to reach any clear consensus and the issue was therefore referred back to the Fund Assembly.

The IOPC Fund Assembly met in October 2005 to consider whether or not to proceed with revision of the 1992 Civil Liability and Fund Conventions and made the following decisions:-

1. That there was insufficient support to continue the revision process which will now be removed from the Assembly's agenda. The Working Group set up to consider revision will be disbanded.
2. The proposal authorized by Club Boards shortly before the meeting to put in place a binding contractual scheme in order to share the overall cost of claims 50/50 with oil receivers in the event that revision was abandoned was noted and the Fund Director was instructed to collaborate with the International Group acting on behalf of shipowners and with OCIMF on behalf of oil receivers in order to put forward a package of voluntary agreements for consideration by the Assembly at its next meeting in February 2006.

For many states, the decision to halt revision was made in reliance on the offer made by shipowners to share the overall cost of claims equally with oil receivers.

CIRCULAR

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Since October a number of meetings have taken place with the Fund secretariat and OCIMF in order to find an acceptable mechanism to give effect to the offer made by shipowners. In addition, there have been regular consultations with ICS and Intertanko in order to ensure that the content of the new agreements is acceptable to as wide a cross section of the ship owning industry as possible.

These discussions have resulted in the attached two draft agreements, named TOPIA 2006 (Tanker Oil Pollution Indemnification Agreement 2006) and STOPIA 2006 (Small Tanker Oil Pollution Indemnification Agreement 2006) which the Board considered and approved at its meeting on 17.01.06. Copies of TOPIA 2006 and STOPIA 2006 are attached to this Circular as Annex 1 and Annex 2.

A detailed summary of the content of each Agreement is contained in the attached Explanatory Notes.

STOPIA 2006 and TOPIA 2006 are intended to have the effect, over time, of ensuring that the total cost of oil pollution claims falling within the 1992 Civil Liability Convention, the 1992 Fund Convention and the 2003 Supplementary Fund Protocol are shared equally between shipowners and the oil receivers who contribute to the 1992 Fund.

STOPIA 2006

This agreement largely mirrors the current STOPIA contract which has been in force since March 2005 and under which the owners of relevant tankers of 29,548 gt or less agree to indemnify the 1992 Fund for the difference between the vessel's limit of liability under CLC 92 and SDR 20 million. This has the effect of increasing the minimum limit of liability for smaller tankers to SDR 20 million, as opposed to the minimum limit of SDR 4.5 million applicable under CLC 92.

STOPIA 2006 differs from the existing STOPIA in that it contains a review mechanism whereby the agreement may be adjusted to compensate prospectively if after the first ten years of its operation (and after every subsequent five years) the proportion of claims paid by either shipowners or oil receivers under all three conventions (CLC 92, Fund 92 and Supplementary Fund Protocol 2003) since 20/2/2006 is greater than 55%. If that proportion is greater than 60%, the agreement must be adjusted.

Another difference is that STOPIA 2006 will apply to all states parties to Fund 92 whereas the existing STOPIA only applies to such states which are also parties to the Supplementary Fund.

At the express request of certain key states which were supportive of using shipowners' revised offer as a means of halting revision, the offer was made to extend the benefits of STOPIA 2006 to all states parties to CLC 92. Because STOPIA 2006 operates by indemnifying the 1992 Fund rather than by paying claimants directly, a different contractual mechanism would be required to extend a similar benefit to the small handful of states which are party to CLC 92 but not Fund 92. On further consideration and particularly in view of the practical difficulties it has now been decided that this will not be taken any further.

Some of the termination and recourse provisions of the existing STOPIA have been amended in STOPIA 2006 and TOPIA 2006 to meet objections raised by various states during discussion at the IOPC Fund meetings.

TOPIA 2006

TOPIA 2006 is similar to STOPIA 2006 apart from two substantial differences. Firstly, under TOPIA 2006, tanker owners undertake to indemnify the Supplementary Fund in respect of 50% of the amount of any claim falling on the Supplementary Fund.

Secondly, TOPIA 2006 applies to all relevant tankers regardless of size. TOPIA 2006 contains identical review and adjustment provisions to those set out in STOPIA 2006 so that any imbalance in the proportion of claims borne by shipowners or oil receivers may be adjusted prospectively by amending TOPIA 2006 or STOPIA 2006 or both.

COMMENCEMENT

The new agreements have now been accepted by a majority of International Group clubs and by the IOPC Fund Assembly meeting in February subject to minor drafting amendments. In the circumstances STOPIA 2006 and TOPIA 2006 will take effect from 20 February 2006.

GENERAL

The IOPC Fund carried out a statistical review of the cost of pollution claims falling under the Civil Liability and Fund Conventions between 1978 and 2003. The result of that study showed that whilst there were large variations in the proportion of the claims cost borne by oil receivers and shipowners in any one year, over the longer term the cost had been shared approximately equally.

The IOPC Fund secretariat has recently carried out a further analysis of the same statistical database which has shown that if the claims figures for the period from 1978 to 2003 are adjusted as if the current Convention limits had applied together with STOPIA 2006 and TOPIA 2006 as currently proposed, shipowners would have paid 51% and oil receivers 49% if the figures are inflated to 2002 values. This split is reversed if the claims figures are inflated to projected 2012 values. Whilst this equitable result for the past may not necessarily be repeated in the future, especially over the shorter term, it does provide justification for proceeding with STOPIA 2006 and TOPIA 2006 as proposed. Although there may well be considerable volatility in the apportionment of cost from year to year, especially if very large claims occur, the adjustment mechanisms will provide a means for progressively correcting any significant imbalance.

Following approval by Members at the EGM which took place on 17 January 2006, an amendment to Rule 19(13) Proviso C of the Association's Rules will, with effect from 20 February 2006, have the effect making Members who are owners of tankers of 29,548 gt or less and which may carry persistent oil in bulk as cargo a party to STOPIA 2006. Similarly, a new Rule 19(13) Proviso D has been added to the Association's Rules providing that Members who are owners of any tanker which may carry persistent oil in bulk as cargo will be a party to TOPIA 2006. A Member's liability to indemnify the 1992 Fund under STOPIA 2006 and to indemnify the Supplementary Fund under TOPIA 2006 will be insured by the Club in accordance with the Rules and the Member's terms of entry.

The implementation of STOPIA 2006 and TOPIA 2006 will be reflected in changes to the Memorandum of Understanding (MOU) which is currently in force between the IOPC Funds and the International Group in order to give effect to the Clubs' undertakings to provide automatic entry in STOPIA 2006 and TOPIA 2006 and to provide cover for the liabilities arising thereunder. In addition the MOU gives the 1992 and Supplementary Funds the right of direct action against the Clubs in respect of those liabilities.

It is likely that charterers will require relevant tanker owners to warrant their participation in STOPIA 2006 and TOPIA 2006 under the terms of charterparties. A recommended clause for inserting into charterparties is attached to this Notice as Annex 3.

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