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

23 FEBRUARY 2010

IRAN – US/UK CURRENT AND PENDING LEGISLATIVE ACTION TARGETED AT TRADING ACTIVITIES INVOLVING IRAN

The International Group is monitoring current and pending legislation in the US and the UK which if implemented would impose sanctions in relation to dealings with the Islamic Republic of Iran and/or Iranian entities. There have been a number of recent developments which could potentially impact on Members and P&I Clubs which are summarised below for Members' guidance.

1. United States legislation

A number of Iranian shipping companies (including the Islamic Republic of Iran Shipping Lines and some of its subsidiary and affiliated companies) are already "specially designated" by the US Treasury's Office of Foreign Assets Control ("OFAC"). The effect of this designation is to prohibit dealings by US persons (which would include provision of insurance services) with these companies. This prohibition is specifically targeted at the activities of identified Iranian companies and their vessels and does not extend to the wider shipowning community.

Of greater potential impact is proposed legislation to amend the Iran Sanctions Act of 1996 to expand economic sanctions against Iran.

Two similar but not identical pending bills in Congress (both confusingly titled the Iran Refined Petroleum Sanctions Act) would, if passed, impose new trade sanctions on the exportation of refined petroleum products to Iran. The bills have recently passed each of the two chambers of the US Congress - the House of Representatives and the Senate.

The wordings of the two bills are currently being reconciled and a single bill may then be enacted once a common wording has emerged. Such reconciliations are not confined to finding a "middle ground" between the two versions, but can also lead to the development of new principles. Once the language of the two bills has been made uniform, it can be made into law. A reconciled version of these two bills is likely to become law if the diplomatic negotiations with Iran over the development of its nuclear programme break down.

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Such a bill, if enacted, would have profound consequences for shipping and trade. For example, under the House of Representatives bill, sanctions would be imposed against both domestic and foreign persons or businesses which provide Iran with refined petroleum resources or engage in any activity that could enhance Iran's ability to import refined petroleum resources. This could include:

- (i) Providing ships, vehicles or other means of transportation to deliver refined petroleum products to Iran; and/or
- (ii) Providing services relating to the shipping or transportation of refined petroleum products to Iran; and/or
- (iii) Providing insurance or reinsurance for an activity described in paragraphs (i) and (ii) above.

Both bills are drafted widely enough to include owners, charterers, managers, crew within the definition of shipping activity, and, Clubs and their reinsurers under the definition of insurance cover.

The proposed sanctions would apply in relation to any of the identified shipping and insurance activities regardless of the flag state and/or beneficial ownership, engaged in the trading of refined petroleum products into Iran notwithstanding that as a matter of the law governing the relevant contracts of carriage and insurance the adventure is lawful. Penalties for breaking the sanctions are likely to include barring persons and companies from access to US financial institutions and the blocking of assets and dollar transactions of an offending insurer located within or routed through the United States.

The International Group is actively monitoring developments in relation to the proposed legislation and will report on any material developments.

2. United Kingdom legislation

The UK Financial Restrictions (Iran) Order 2009 came into effect on 12 October 2009. The material provisions of the Order prohibited the provision of insurance cover to IRISL owned, controlled and/or operated vessels. As a consequence of the Order the IRISL entry with the Association ceased.

The International Group has not been advised of any further intended action by the UK government either in relation to insurance arrangements for other Iranian companies or in relation to trading to Iran, but the possibility should not be ruled out. The International Group continues to monitor the situation and will inform Members of any material further developments in this respect.

3. Club cover

The anticipated US sanctions will introduce complex cover issues.

The International Group considers that it may be prudent for Clubs to consider amending their rules to address situations where legislation, regulation or other executive action prohibit or impose sanctions in respect of the insurance cover provided by clubs, which could expose club memberships at large to penalties arising out of the provision of insurance to individual Members whose trading activities contravene such sanctions.

Additionally the implementation of the UK Financial Restrictions (Iran) Order 2009 had highlighted to the Managers that the cesser provisions of the Association's Rules required amendment to include a termination of Membership of the Association by operation of law. Such an amendment would ensure that there was an automatic cesser of insurance in circumstances where it had become unlawful for the Association to continue to provide insurance by operation of sanctions or otherwise.

At the Extraordinary General Meeting in January this year the Members of the Association adopted changes to the Memorandum and Articles of Association which gave the Directors a power to make changes to the rules during a policy year. It is anticipated that this power would be exercised in only the most exceptional circumstances but it could be used where changes were necessary to prevent the Association from carrying on business which has been made unlawful during the course of the policy year by new legislation.

Additionally at the January Board Meeting the Directors adopted a resolution that a condition of entry be endorsed on certificates of entry for the 2010 policy year modifying the rules of the P&I and FD&D classes by clarifying that the definition of a cesser event be extended to encompass a situation where, by operation of law, the Association was unable to continue to insure a Member.

Separately the International Group may consider it necessary to amend the Pooling Agreement to take account of a related problem that may arise where, by operation of law, reinsurers of a P&I Club or the International Group may be prevented from paying a claim. This is a probable consequence of legislation currently under consideration in the United States.

Any amendments to the Pooling Agreement will take place only when the scope of the relevant US legislation has been finalized.

4. Shipowners obligations arising under contracts of carriage

The Group will liaise and coordinate with relevant shipowner associations with a view to the development of appropriate protective clauses for incorporation into charter party and bill of lading contracts.

M J SALTHOUSE

DIRECTOR - North Insurance Management Limited

As Managers on behalf of the North of England P&I Association Limited