



STANDARD BULLETIN

SETTING THE STANDARD FOR SERVICE AND SECURITY

June 2011



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IN THIS ISSUE

- 01 Board meeting
- 03 Recent developments on the prosecution of pirates in US courts
- 04 Japan update
- 06 USA low sulphur regulations
- 08 Club news

BOARD MEETING

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 20 FEBRUARY 2011

"At a time of dislocation in many aspects of world commerce, and in a period with significant challenges, the Standard Club has experienced another year of stability and solid achievement. Tonnage, premium income and free reserves have all continued to grow. The club is in robust health, with all key indicators pointing in the right direction," said Ricardo Menendez, the club chairman, in his chairman's statement this year. "Our aim remains that of providing good value P&I insurance at sustainable and stable cost while developing our business to reflect members' insurance needs."

The club's annual report and financial statements were approved at the board meeting on 13 May, and the financial highlights are set out below. The club has grown again in the last 12 months, and entered tonnage now stands at 123 million gt. Premium income for P&I and Defence is projected to be \$283 million in the current year. The overall surplus on the year to 20 February 2011 was \$74 million, contributed

FINANCIAL HIGHLIGHTS 2011

COMBINED P&I AND DEFENCE CLASSES

	2011 US\$m	2010 US\$m
RESULTS FOR THE FINANCIAL YEAR ENDED 20 FEBRUARY 2011		
Calls and premiums net of reinsurance	202	202
Total claims net of reinsurance and operating expenses	(184)	(201)
Balance of technical account for general business	18	1
Net investment income	56	66
Excess of income over expenditure for the year	74	67
OUTSTANDING CLAIMS LIABILITIES		
Estimated known outstanding claims net of all recoveries	314	292
Incurred but not reported claims (IBNR)	139	136
Total estimated claims liabilities	453	428
FUNDS AVAILABLE FOR CLAIMS		
Open policy years	227	211
Closed policy years	226	217
Free reserves	317	243
Total balance sheet funds	770	671

> continued from page 1

to by both an underwriting surplus, with a combined ratio of 91% and another good investment return at 9.9% for the year. The overall result is an increase in the free reserves from \$243 million to \$317 million.

NEW DIRECTOR

The board was pleased to welcome Tony Mace of SBM Offshore NV to the board.

STRATEGY AND DEVELOPMENT

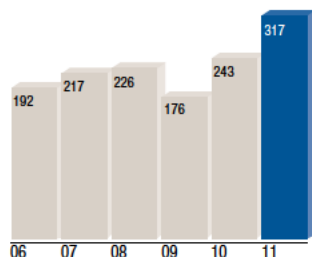
The board has reaffirmed the club's commitment to providing the highest-quality service coupled with excellent financial security to its members for their P&I insurance needs. As Ricardo Menendez said in his chairman's statement: "We have continued to invest in resources, with quality at the top of our priorities – in respect both of the service that members receive from the club and of the standard of ship operations insured by the club."

SOLVENCY 2 AND REORGANISATION

Solvency 2 readiness is the most significant issue for the club to deal with at the current time, not just because of increased capital needs, but also because of the greatly increased governance and reporting requirements, and a more complex approach to the assessment of capital adequacy. The club has devoted significant resources to this project and expects that to continue for the foreseeable future.

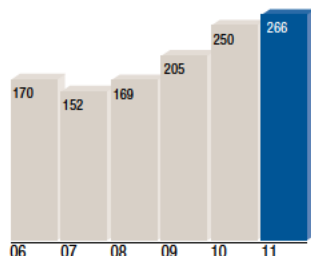
FREE RESERVES

\$ MILLION



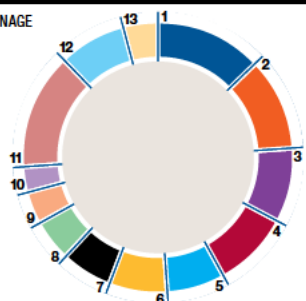
PREMIUM INCOME

\$ MILLION



MEMBERS

OWNED TONNAGE



1	USA	13%
2	Greece	11%
3	Italy	9%
4	Germany	9%
5	Canada	7%
6	Japan	7%
7	United Kingdom	6%
8	Singapore	5%
9	Switzerland	4%
10	Republic of Korea	3%
11	Rest of Europe	14%
12	Rest of World	8%
13	Rest of Asia	4%

At the same time, the ramifications of Solvency 2 have caused the board to review the structure of the Standard family of clubs. The current structure reflects the club's historical development, but now is the right time to see if there is a more cost- and capital-effective way of organising the club. Advice is being taken on possible changes and we will keep members informed of progress with this, potentially major, reorganisation project.

PIRACY

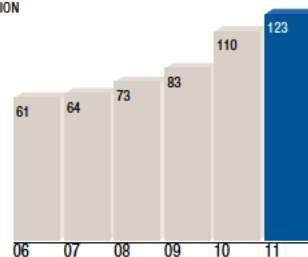
The board is concerned at the apparent inability of the industry and of states to tackle piracy with any success, despite much well-intentioned talk. It realises that there is no easy or quick solution, given the lack of political will to address the issue at its root cause, but it does believe that the clubs, as shipowners' organisations, must be able to play a bigger part and that a thorough review of the arrangements surrounding insurance for piracy risks could contribute towards producing a better way of resolving the piracy problem.

EUROPEAN COMMISSION

The Commission continues to review the International Group's arrangements and the Group clubs have been continuing to co-operate with the Commission case team by providing a huge amount of data to assist in the review. The Group is now currently waiting to hear further from the case team once it has had a chance to review this data as well as the other information and views from industry sources that it has obtained.

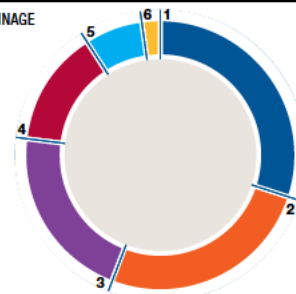
TONNAGE

GT MILLION



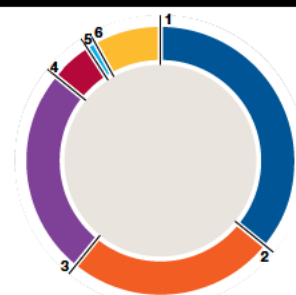
SHIP TYPE

OWNED TONNAGE



1	Tanker	30%
2	Container & general cargo	26%
3	Dry bulk	21%
4	Offshore	14%
5	Passenger & ferry	7%
6	Other	2%

ASSET ALLOCATION



1	Sovereign bonds	36%
2	Corporate bonds	25%
3	Equities	25%
4	Alternatives	5%
5	Gold	1%
6	Cash	8%

RECENT DEVELOPMENTS ON THE PROSECUTION OF PIRATES IN US COURTS



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FIRST ARREST OF A PIRATE ON LAND IN A FOREIGN COUNTRY

The recent prosecution of Somali pirates underlines the extent to which the United States is using the court system to aggressively combat piracy. On 8 March 2011, a federal grand jury in Norfolk, Virginia indicted Mohammad Shubin, the alleged mastermind behind the hijacking and ransom negotiations of four Americans who were kidnapped while sailing on the *M/Y Quest* and later killed by Somali pirates in February 2011. The indictment, which remained under seal pending Shubin's arrest, charged him with counts of piracy, conspiracy to commit kidnapping and use of a destructive device during a crime of violence. In addition to Shubin, 14 alleged co-conspirators were indicted.

In early April 2011, FBI agents captured Mohammad Shubin in Somalia, marking the first time the US has apprehended an alleged pirate who was based in Somalia and had a leadership role. The district court in Norfolk unsealed Shubin's indictment following his capture and first court appearance. A jury trial for the accused pirates is scheduled to begin on 29 November 2011.

FIRST SENTENCE OF A PIRATE ACCUSED OF HIJACKING A FOREIGN-FLAG VESSEL

In another key prosecution, a federal judge in Washington, D.C. sentenced Jama Idle Ibrahim on 7 April 2011 to 25 years in prison. Ibrahim was charged with attacking a Danish ship, the *CEC Future*, which was carrying cargo from a US company. In November 2008, Ibrahim and other pirates detained the *CEC Future*, its cargo and the 13 crew members for more than two months before obtaining \$1.7 million in ransom from the Danish company. In September 2010, Ibrahim pled guilty to conspiracy to commit piracy under the law of nations, and conspiracy to use a firearm during and in relation to

a crime of violence. Ibrahim's sentence represents the first piracy prosecution in the US involving the hijacking of a foreign flag ship.

Ibrahim's sentence for attacking the Danish ship was not the first sentence handed down to him by a US court. In November 2010, a federal judge in Norfolk sentenced Ibrahim to 30 years in prison for his involvement in an attack on *USS Ashland*.

AN UNSETTLED DEFINITION OF PIRACY

At the time Ibrahim received his first sentence, however, there was uncertainty about how US courts define piracy. This uncertainty arose after two district judges in the Eastern District of Virginia handed down different rulings regarding the definition of piracy.

The cases involved separate armed attacks on two United States Navy ships, the *USS Ashland* and the *USS Nicholas*. In both cases, accused Somali pirates fired weapons at the ships, but were unsuccessful in capturing them. Instead, the accused pirates were captured and brought to Virginia to stand trial on numerous criminal charges, including piracy. In both cases, defence counsel moved to dismiss the piracy count of the indictments on the grounds that merely shooting at the ships was not, in itself, an act of piracy.

Judge Jackson's and Judge Davis' different rulings turned on their disagreement about the definition of piracy. In a decision issued in August 2010, Judge Raymond Jackson dismissed the piracy count in the case involving attacks on the *USS Ashland*, holding that under United States law, merely shooting at a ship is not piracy. The government has appealed Judge Jackson's ruling. Ibrahim's five co-defendants remain in jail pending the government's appeal of the dismissed piracy count.

Judge Mark Davis, however, disagreed with the definition of piracy adopted by Judge Jackson. On 29 October 2010, Judge Davis denied the defendants' motion to dismiss the piracy count and held, as a matter of law, that attacking a ship is piracy under US law and the law of nations, even if the ship and crew are not captured and robbery is not committed. After a federal jury convicted the five accused pirates for attacks on the *USS Nicholas*, Judge Davis sentenced each pirate to life in prison plus 80 years on 14 March 2011.

Until the Court of Appeals for the Fourth Circuit issues a ruling on the definition of piracy, the question of whether unsuccessful pirate attacks on ships constitutes piracy as a matter of United States law remains unclear.

Fishing vessel Tai Yaun 227 reportedly being used as a mother ship
v for pirates in October 2010



JAPAN UPDATE



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The situation at the Fukushima Daiichi nuclear power plant remains very serious and we recommend members remain cautious when operating ships near the affected area. Accurate and up-to-date information on radiation levels, precautions and recommendations are available from the Japanese authorities, the International Maritime Organization (IMO), Flag States, the World Health Organization (WHO) and the International Atomic Energy Agency (IAEA). At the end of this article are links to various websites that provide useful information.

Most of Japan's ports that were damaged by the earthquake and tsunami are returning to normal operations; however, there are still some ports undergoing reconstruction. Members are advised to liaise with local agents and P&I correspondents for up-to-date information on their intended ports of call, including any residual radiation risks posed to crew members and contamination of the ship.

The International Maritime Organization released circular letter No. 3175 rev. 2 on 15 April, confirming that radiation levels in Japan do not present health or transportation safety hazards to passengers and crews. See the following link for details:
<http://www.imo.org/MediaCentre/HotTopics/Documents/3175-Rev-2.pdf>



THE EXCLUSION ZONE

- The Japanese authorities, as of 13 April, continue to advise ships to keep clear of the affected seawaters off Fukushima nuclear plant by 30km.
- Certain flag states have advised their ships previously to avoid the affected area by as much as 80km.
- Many shipowners have reacted to the crisis by implementing their own exclusion zone for their ships by as much as 150km.
- Members are recommended to conduct a risk assessment for operating their ships near the affected areas and take into account Japanese authorities requirements as well as guidance issued by the ship's Flag State.
- Some ships that have passed within 80km off Fukushima have been subject to additional port entry requirements by port state controls, including a period of quarantine at anchor resulting in lengthy berthing delays.
- The Russian Federation recently placed in quarantine a Panama flagged cargo ship that had passed near the plant and put its 19 crew members under medical supervision after detecting radiation levels three times the normal amount in the engine room.
- A ship sailing from Japan for China passed 67 nautical miles off the coast of Fukushima and upon arriving at the Chinese port, the Entry-Exit Inspection and Quarantine Bureau inspected the vessel and detected abnormal amounts of radiation on decks and surface of the containers that the ship was carrying. The ship was refused entry by Chinese officials.

RADIATION SCREENING PRIOR TO LEAVING JAPANESE PORTS – SHIP AND CARGO

In an effort to avoid delays and port entry refusals by foreign port state authorities, the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT) recently issued guidelines on measuring the radiation levels of containers and ships in Japanese ports. Below are links to these guidelines:

- 1) Guidelines on Radiation Measurement for Export Containers in Port: <http://www.mlit.go.jp/common/000143166.pdf>
- 2) Radiation Measurement on Containers and Ships in Port: <http://www.mlit.go.jp/common/000143147.pdf>

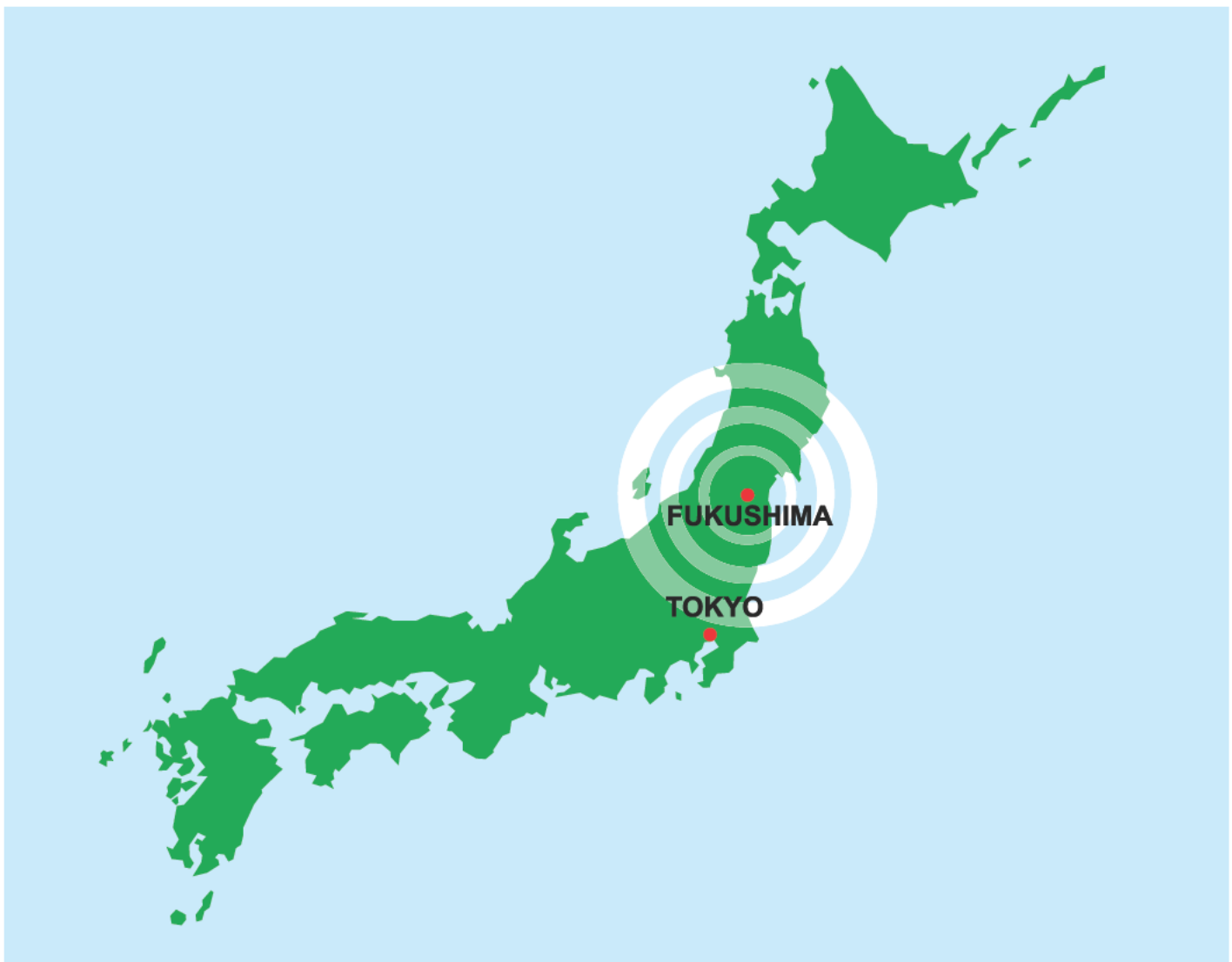
To briefly summarise these guidelines:

- Testing is to be carried out using mobile radiation meters operated by either the shipowner or port authority.
- Sampling points include the container terminal gates and decks of ships.
- If radiation readings exceed certain limits, decontamination will take place. The criteria for decontamination are defined within the guidelines.
- If radiation levels are found to be within the normal range, a certificate or attestation will be issued confirming the method of testing carried out and the results recorded.

South Africa has recently made it compulsory for all ships calling at South African ports, which have come from Japan or are carrying cargo loaded in Japan, to make a declaration to their South African agents and the port authorities immediately. Additional countries are expected to implement similar requirements in the future; therefore, it is important to consider these requirements when visiting Japanese ports or entering Japanese waters.

RECOMMENDATIONS FOR SHIPS TRANSITING NEAR THE EXCLUSION ZONE OR IN AFFECTED AREAS

- Monitor NAVTEX warnings issued by Japanese authorities and coastal warning broadcasts by VHF.
- Monitor NAVAREA warnings for sea areas XI(11) and XII(12) for additional guidance and recommendations.
- Keep in regular contact with the Designated Person Ashore (DPA)/ ship technical managers, port agents and correspondents, and port authorities when transiting Japanese waters.
- Monitor weather conditions especially prevailing wind conditions.



- Consider obtaining a radiation meter to measure readings on deck and from the bridge. The instrument should be calibrated correctly and procedures for its use and maintenance should be incorporated into the safety management system (SMS).
- Restrict access to the deck – non-essential work on deck should be restricted until such time as when the vessel is well clear of the affected area.
- Crew members conducting essential work on deck should be provided with facemasks and protective clothing.
- Where iodine-potassium tablets are carried on board, they should be distributed as necessary – company medical advice to be promulgated to the fleet regarding the use of such tablets, including precautions, side effects, etc.
- Consider placing the air conditioning system into recirculation mode and closing vents to the accommodation block.
- Freshwater generators should not be used when transiting near the exclusion zone or any areas affected by it.
- Strainers from the sea water chests should be cleaned, if necessary, prior to transiting Japanese waters and not while in these waters.
- Use of the fire main line should be avoided where possible when transiting near the affected areas off Fukushima.
- Restrict ballast water exchanges near the exclusion zone, particularly when the next port of call is within China or Chinese waters.
- Any clothing found to be contaminated with radiation particles to be disposed of in an appropriate manner.

Some useful websites are provided below for reference:

<http://www.imo.org/MediaCentre/HotTopics/Pages/Default.aspx>

<http://www.iaea.org/About/japan-infosheet.html>

<http://www.who.int/hac/crises/jpn/en/index.html>

USA LOW SULFUR FUEL REGULATIONS EXTEND BEYOND TERRITORIAL WATERS



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In *Pacific Merchant Shipping Association v. Goldstene*, the Ninth Circuit Court of Appeals recently upheld the right of the state of California to require the use of low sulfur fuels in ships operating within 24 nautical miles (nm) of its coast. The court held a state may regulate conduct occurring outside its territorial boundaries if the conduct ultimately affects the health and safety of its citizens. The court also concluded that although compliance with the regulations would cost the industry billions of dollars, the economic cost of the regulations was not so onerous that California was unreasonably interfering with foreign commerce.

BACKGROUND

Fuel use regulations developed by the California Air Resources Board (CARB) have been in force since July 2009. These regulations require ocean-going ships transiting to or from California to use either marine gas oil of 0.3% to 1.5% sulfur content or marine diesel oil with a sulfur content of 0.5% or less in all main engines, auxiliary engines and auxiliary boilers from 24nm from shore. The sulfur limits are scheduled to decrease to 0.1% in January 2012.

The Pacific Merchant Shipping Association argued that California did not have the right to regulate conduct beyond its three-mile belt of territorial waters and the regulations unreasonably imposed a non-uniform and costly regulatory regime on the maritime industry.

While the court acknowledged that the costs for shipowners to comply with the fuel use regulations will be approximately \$360 million annually and \$1.5 billion through 2014, the Ninth Circuit upheld CARB's regulations. While the court noted that "we do believe [the regulations push California's] legal authority to its very limits...", it ultimately found California had a compelling interest in protecting the health and safety of its citizens from what it described as the "devastating impact on California and its residents of the low-grade fuel used by ocean-going vessels within 24 miles of the state's coastline...". It ruled that California's interest in protecting its citizens justified its extra-territorial regulation of marine fuel use.

The court also found that there were no concerns with the imposition of heightened fuel usage requirements on the maritime industry. The court held that requiring ships to switch to cleaner-burning fuels 24nm from California's coast, rather than from 3nm from the coast, did not impermissibly impact or affect national or foreign commerce by introducing non-uniform fuel use regulations. The court noted that when the United States implemented MARPOL Annex VI, it expressly reserved to the states the right to formulate fuel use rules. Pursuant to MARPOL Annex VI, the waters lying up to 200nm miles seaward of the US and Canadian coasts will become an emission control area (ECA), beginning in July 2012. All ships within the ECA will have to meet the current ECA fuel limitation of 1% sulfur. The ECA limitation decreases to 0.1% in 2015.

The court further observed that the CARB fuel regulations contain a sunset clause that provides for their termination once CARB determines the federal government has adopted and is enforcing requirements that will achieve equivalent emission reductions. The court said it was "reasonable to predict" that the sunset clause would be triggered in 2015 – the time when ships subject to MARPOL Annex VI ECA sulfur restrictions will match the CARB requirements.

IMPLICATIONS

This decision may have broader implications to the maritime industry. The seaward territorial limit of most states, including California, is three miles from the coastline. The decision recognises the right of states to impose operating restrictions on ships when they are operating outside of the state's territorial limits. Unless this decision is overturned, states may use this decision to attempt to



impose other types of operating restrictions on ships if they believe that pollution from ships is impacting their state resources or citizens.

FUTURE AMENDMENTS

Please note that CARB is currently seeking comments on proposed amendments to the regulations. CARB has proposed to extend the final compliance date of the 0.1% sulfur limitation to 2014 rather than 2012. Additionally, CARB is proposing to extend the area in which the rule applies in Southern California. The proposal would roughly double the regulated area for ships calling in the ports of Los Angeles and Long Beach by extending it another 24nm from the Channel Islands, which lie off the California coast.

The reason for this change, as explained by CARB staff, is two-fold. First, the US Navy has noted a sharp increase in traffic through the Point Mugu Sea Range, which is used by the Navy for testing and training, thus interfering with Navy operations. The Sea Range is outside of the current 24nm zone in which low sulfur fuel is required, but within the Contiguous Zone. Additionally, CARB believes that ships are changing their routes from the established Santa Barbara Channel shipping lanes to a route through the test range in order to avoid application of the regulations. Because the ships are not switching to low sulfur fuel where anticipated, the rule is not achieving the emission reductions CARB expected when it was first adopted.

In addition, CARB is considering other minor amendments to the regulations, including changes to the non-compliance fee, to account for partial compliance with the regulations. Currently, a ship may opt to pay a non-compliance fee of \$45,500 if it notifies the agency before it arrives in California that it will not be in compliance. This fee increases with each visit and applies whether the ship fails to comply in whole or in part. The fee must be paid before the ship leaves the California port. CARB is proposing to reduce the non-compliance fee if a ship buys and utilizes the fuel once it reaches a Californian port.

Below is a link to CARB's proposed amendments that are currently being considered: <http://www.arb.ca.gov/ports/marinevess/documents/021711/amendments2011.pdf>



CLUB NEWS

CLAIMS

Laura Bloomfield has joined the offshore syndicate as a claims executive

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Roger Johnson has joined the offshore syndicate as a claims executive

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UNDERWRITING

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P&I EXECUTIVE

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Emma Newton has joined as a marketing executive

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STANDARD OFFSHORE FORUM 20 OCTOBER 2011

The club's annual Offshore Forum offers a unique opportunity for shipowners involved in the offshore oil and gas industry to meet and discuss current industry issues with oil companies and contractors in an informal environment. The Forum is intended to stimulate informed debate amongst participants, and are open to both members and non-members of the Standard Club and their marine contractor and oil company clients.

This year's Standard Offshore Forum will take place in London on Wednesday 20 October. The forum will be held in the historic surroundings of Trinity House, headquarters of the Corporation of Trinity House, which is the General Lighthouse Authority for England, Wales, the Channel Islands and Gibraltar. A seminar will be held at 3pm, followed by drinks and dinner from 6.30pm.

If you are interested in attending the Offshore Forum, please contact Robert Dorey on +44 20 3320 8831 or robert.dorey@ctcplc.com

RHL MARITIME LAW & MARINE INSURANCE CLAIMS COURSE 12-16 September 2011

This course is designed to develop an understanding of the principles and practice involved in handling and settling marine claims.

Through a mixture of formal lectures, discussions, question and answer sessions and case studies, the course will:

- review the law and practice which underlie much of marine claims handling
- present practical examples of casualties, demonstrating appropriate responses and procedures and identifying who does what
- examine the preparation of claims
- provide a forum where ideas can not only be received but also exchanged

Who should attend?

This course is designed for but not limited to representatives from Shipowners, Ship Managers, Insurance Brokers, Insurers of hulls, cargoes, etc. and other members of the marine claims community. Some experience in marine insurance is essential in order for participants to derive the maximum benefit. A good refresher course for more senior personnel involved in marine insurance claims.

If you are interested in attending the RHL Maritime Law & Marine Insurance Claims Course, please contact Lauren Mahoney, Richards Hogg Lindley, London EC3A 3BA
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