

Standard Bulletin

August 2016

The Standard for
service and security

The Standard



Jeremy Grose
Chief Executive
+44 20 3320 8835
jeremy.grose@ctplc.com

Financial performance for the year ended 20 February 2016

The club's board reviewed the club's and group's financial positions, full details of which were set out in the club's [circular of 20 May](#) and [annual report](#), which are both on the club's website.

By way of recap, the club achieved a modest underwriting surplus for the year ended 20 February 2016, with a combined ratio of 95% (as against last year's ratio of 100%), helped by some improvement on prior year claims development.

Investment returns were down 0.9% at the end of the financial year due to negative contributions from equities and alternatives, offset by a revaluation of the club's investment property.

Despite the negative investment returns, modest improvements in the back year reserves delivered a surplus of \$10m and an increase in free reserves from \$380m to \$390m. This 2.5% increase in free reserves tracks closely the growth in tonnage. Tonnage increased over the year by 2% to 138mgt from 135mgt.

Overall, the club achieved a very positive result in a challenging environment and the board was grateful for the ongoing support given by members who continue to face difficult market conditions.

At the meetings of the club board and its principal subsidiaries earlier this year, the club's board reviewed the financial performance for the year ended 20 February 2016 and reaffirmed the club's strategy. This bulletin provides a short recap of each topic.

The board also considered and agreed to support in full a discretionary claim presented by a member fined for failing to burn the correct fuel in Californian waters. This bulletin summarises the key issues to help members remain compliant in low sulphur regimes.

The club's strategy and The Standard Syndicate

The board confirmed the club's four strategic objectives: to offer a broad range of P&I insurance and other marine and energy covers that represent excellent and sustainable value; to be recognised as providing excellent service through solving members' problems; to provide first-class financial security; and to achieve selective growth, consistent with the other objectives.

One of the most effective ways for the club to provide a high level of financial security to members is by increasing both the source and diversity of its income stream. One way the club is doing this is by increasing the range of insurance covers offered to members. The launch of The Standard Syndicate at Lloyd's, which started underwriting on 1 April 2015, is a good example of this approach. The club provides 40% of the capital needed by the syndicate. The syndicate offers members a wide range of additional covers designed to meet their needs and is expected to deliver a new source of income to support the core mutual P&I business. The future results of the syndicate may benefit the club's finances, which in turn could help to minimise the cost of mutual P&I cover.

Whilst the club's investment in the syndicate for 2015 resulted in a small loss, which is included in the financial results for the year ended 20 February 2016 detailed above, this was expected for a start-up syndicate. Despite this loss, the board was pleased with the syndicate's development in its first year of operation, the diversification this brings to the club and its continued focus on writing a balanced portfolio of profitable business.

Given the syndicate is already being well supported by members on hull cover, the board would like to highlight the other covers available, including property, energy, cargo, specie, political risks, political violence and liability covers.

Since the meeting of the club's board in May, a number of new underwriters have been recruited to support the plan to build a diversified marine and energy portfolio, so the syndicate now also provides cover for political risk, fine art and specie, and political violence.

Full details of all lines of business that the syndicate writes will shortly be published in a Special Edition of the Standard Bulletin.

Discretionary claims

The board was asked to exercise its discretion to reimburse a member in respect of a fine that was imposed by the California Air Resources Board. The fine was due to infringements of the California Air Toxic Control Measures, which made it mandatory from 1 August 2012 for ships to use either marine gas oil with a maximum sulphur content of 1% by mass, or marine diesel oil with a maximum sulphur content of 0.5% by mass, whilst in Californian waters. Having considered all of the facts of the case, the board was satisfied that the member in question had taken all reasonable steps to avoid the event giving rise to the fine and that exceptional circumstances warranted reimbursement in full.

However, the board did ask the managers to remind members of the increasing number of low sulphur regimes in force around the world and their expectation that every member will have adopted a robust approach to ensure full compliance both on board and ashore, given that the issue has been well publicised for some considerable time.

The following article summarises the key issues to help members remain compliant in low sulphur regimes.

Low sulphur fuel regimes



Rupert Banks
Regional Claims Director

+65 6506 2882
rupert.banks@ctplc.com

Since 1 January 2015, ships have been required to use fuel with a sulphur content of no more than 0.1% when trading in certain Emission Control Areas (ECAs) designated under MARPOL Annex VI. These ECAs have been well publicised throughout the shipping industry and the club has produced a number of publications on this topic, which are available on The Standard Club's [website](#). In addition to the rules that apply in the MARPOL designated ECAs, shipowners and operators need to be acutely aware of other local regimes relating to the use of low sulphur fuel, which can attract significant fines and other penalties for non-compliance.

The ECAs established and defined under MARPOL Annex VI are: the Baltic Sea area, the North Sea area, the North American area and the United States Caribbean Sea area. However, a shipowner's obligation to use low sulphur fuel is not limited to these ECAs alone. A number of other more localised low sulphur regimes are in force in various jurisdictions, and members should be aware of the rules and regulations applicable in those countries to which they trade. Some of these other low sulphur regimes are as follows, and shown on the map overleaf.

EU

Under EU directive 2012/33/EC, all ships at berth in a port of any EU member state must use fuel with a sulphur content of 0.1% or less, even if that port is outside the Baltic Sea ECA or the North Sea ECA. Any fuel changeover operation must be completed as soon as possible after arrival at berth and as late as possible before departure.

Turkey

All ships at berth in Turkish ports and all inland waterway craft sailing on Turkish inland waters are required to burn marine fuel with a sulphur content not exceeding 0.1%. Passenger ships providing regular passenger services are required to use marine fuels with a sulphur content not exceeding 1.5% whilst in Turkish waters.

California

Californian waters fall within the North American ECA designated under MARPOL Annex VI. However, California also applies its own low sulphur fuel regulations. As such, ships operating in Californian waters (and within 24 nautical miles of the Californian coastal baseline) need to comply with not only the ECA regulations but also with the Californian regime. Whilst the ECA regulation only requires fuel used on board to meet the 0.1% maximum sulphur limit, the Californian rules dictate that fuel used on board must also be marine distillate fuel (either marine gas oil (MGO) or marine diesel oil (MDO)).

China

Since 1 April 2016, all ships have been required to use fuel oil with a maximum sulphur limit of 0.5% whilst at berth in the ports of Shanghai, Ningbo-Zhoushan, Suzhou and Nantong. The requirement to use fuel that meets this sulphur limit starts one hour after arrival alongside and ends one hour before departure. China also plans to implement other ECAs at ports in the Pearl River Delta and the Bohai Bay region from 1 January 2017.

Hong Kong

Ships of 500gt and above calling at Hong Kong must use marine fuel with a sulphur limit of 0.5% whilst at berth, other than during the first hour after arrival and the last hour before departure.

Australia

All cruise ships are currently required to use marine fuel with a sulphur content of 0.1% or less whilst within Sydney Harbour. From 1 July 2016, this requirement was extended beyond the period at berth to the whole period in which the cruise ship is within Sydney Harbour.

Ensuring compliance

The penalties for breaches of low sulphur fuel regulations can be severe and include substantial fines as well as imprisonment in some jurisdictions for both shipboard and shore personnel. For example, a breach of the Californian rules can lead to a fine of \$10,000 for each day that the violation occurs.

Members need to ensure that they have adequate procedures in place, reinforced by an effective compliance strategy that includes initial and refresher training, a robust monitoring regime as well as continuous due diligence in respect of any low sulphur fuel regulations that may be in force in the jurisdictions to which they trade. Some recommended measures include:

On board

- Seek advice from local agents on any low sulphur fuel regulations that are applicable, sufficiently in advance of the ship's intended port call.
- Make sure that there is sufficient compliant fuel on board in order to satisfy local requirements.
- Ensure that low sulphur fuels are always segregated from other fuel oils on board.
- Ensure that the ship's crew are properly trained and proficient in fuel switchover procedures and are competent in the use of aids, such as fuel changeover calculators developed by the major classification societies. Training should be refreshed periodically.
- Properly record the date, time and position of all fuel changeovers.
- Retain low sulphur fuel samples on board for at least one year until fuel has been fully consumed and bunker delivery notes for three years from the date of delivery.
- Retain fuel quality test reports on board as some local authorities, particularly in the US, EU and China can request sight of these.

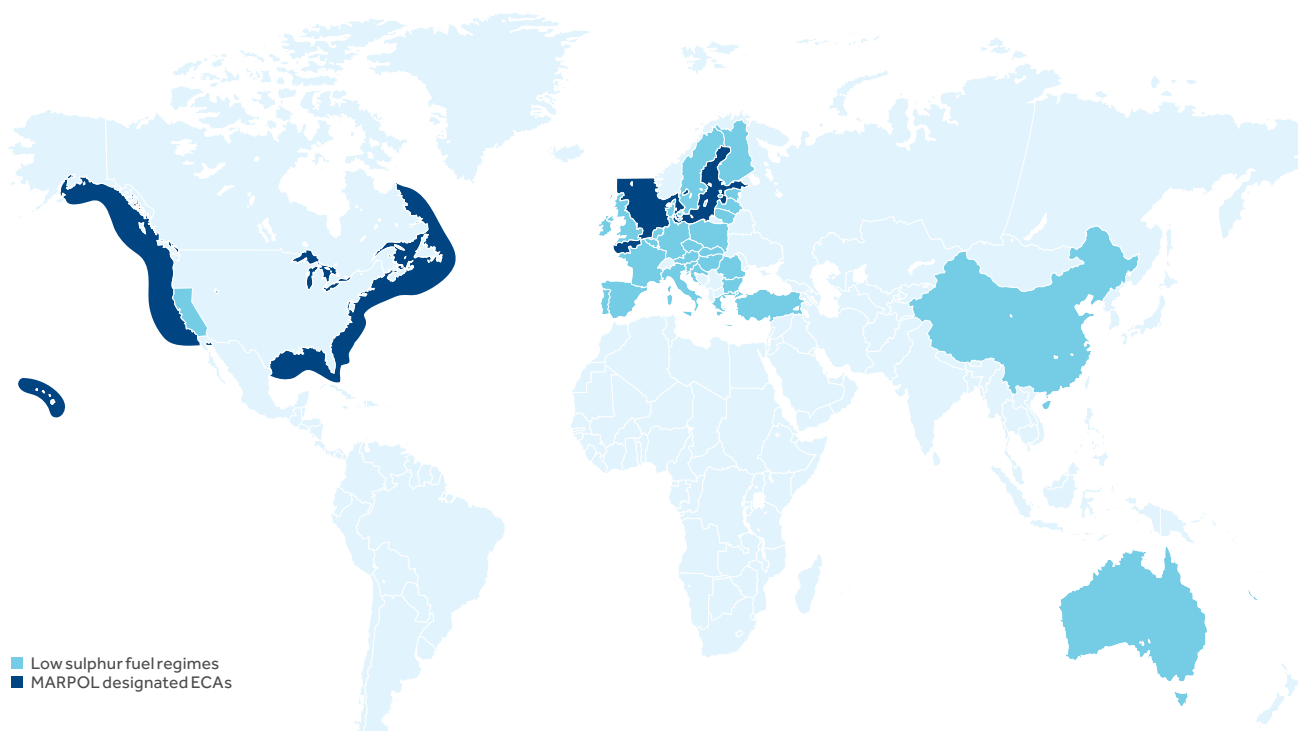
On shore

- Develop clear procedures and guidance for ships trading to or within ECAs.
- Establish a robust monitoring regime.
- Implement a 'zero pollution' culture throughout the company.
- Promote internal reporting of potential breaches of low sulphur fuel regulations which may expose the member (or crew) to penalties.
- Brief crew and shoreside personnel on the consequences of falsifying MARPOL records.
- Seek advice from the club where necessary on low sulphur fuel regimes applicable in relevant jurisdictions.



Club cover

Members are reminded that, in accordance with the club rules, fines arising from a breach of low sulphur fuel regulations and other MARPOL requirements are only covered at the discretion of the club's board. In order for cover to respond to such fines, the board must be satisfied that the member took all such steps as appear to the board to be reasonable to avoid the event that gave rise to the fine.

The worldwide drive towards the use of cleaner fuels within the shipping industry has been well publicised for some considerable time now and, in exercising its discretion, the board is entitled to take into consideration the zero-tolerance attitude of authorities to such matters and the level of proactive management that is required to be implemented by ship operators both on board and ashore to ensure compliance. Accordingly, members should not expect the board to approve reimbursement of such liabilities, and fines for environmental offences generally, save in exceptional circumstances.



Web alerts The Standard Club issues a variety of publications and web alerts on topical issues and club updates. Keep up-to-date by visiting the News section on our website www.standard-club.com

 [@StandardPandi](https://twitter.com/StandardPandi)
 [The Standard P&I Club](https://www.linkedin.com/company/the-standard-p-i-club)

This Standard Bulletin is published on behalf of The Standard Club Ltd by the managers' London agents: **Charles Taylor & Co. Limited** Standard House, 12–13 Essex Street, London, WC2R 3AA, UK Registered in England No. 2561548

The information and commentary herein are not intended to amount to legal or technical advice to any person in general or about a specific case. Every effort is made to make them accurate and up-to-date. However, no responsibility is assumed for their accuracy nor for the views or opinions expressed, nor for any consequence of or reliance on them. You are advised to seek specific legal or technical advice from your usual advisers about any specific matter.

Telephone: +44 20 3320 8888 Emergency mobile: +44 7932 113573 E-mail: pandi.london@ctplc.com
Website: www.standard-club.com

The Standard Club Ltd is regulated by the Bermuda Monetary Authority. The Standard Club Ltd is the holding company of the Standard Club Europe Ltd and the Standard Club Asia Ltd. The Standard Club Europe Ltd is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Standard Club Asia Ltd is regulated by the Monetary Authority of Singapore.

The Standard Syndicate 1884 is managed by Charles Taylor Managing Agency Ltd. Charles Taylor Managing Agency Ltd is a Lloyd's managing agent and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**Charles
Taylor**