

CIRCULAR

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DECEMBER 19, 2003

CIRCULAR NO. 18/03

TO MEMBERS OF THE ASSOCIATION

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Dear Member:

CHANGES TO THE RULES OF THE ASSOCIATION FOR THE 2004 POLICY YEAR

Please note that your Board of Directors recently approved the following changes to the Club's Rules to take effect from February 20, 2004.

As in previous years, they derive from a continuing review of the language of the existing Rules, amendments to the cover wordings of all clubs initiated at International Group level, and a desire to maintain good housekeeping in the interests of the clarity and efficacy of the terms under which Members are insured by the Club.

Class I: Protection and Indemnity Insurance

Classification and Statutory Requirements

Class I, Rule 1, Section 4.14.v will be amended as follows:

- v *The Member must comply or procure compliance with all statutory requirements of the State of the insured vessel's flag including without limitation those relating to the construction, adaptation, condition, fitment, equipment and manning of the insured vessel and must at all times maintain the validity of such statutory certificates as are issued by or on behalf of the State of the insured vessel's flag in relation to such requirements and in relation to the International Safety Management (ISM) Code and the International Ship and Port Facility Security (ISPS) Code or any equivalent mandatory flag State regime.*

The proposed amendment brings the current wording of the Rule closer to that which is contained in the Pooling Agreement of the International Group of P&I Clubs and, in addition, makes clear the Member's obligation to maintain valid certification in compliance with flag State requirements in respect both of the ISM Code and of the new ISPS Code as well as, for US flag vessels, the MTSA 2002.

The ISPS Code will come in to a force on July 1, 2004. Claims arising during a period when a Member does not maintain valid ISPS Code – or a flag state mandated equivalent – certification will be recoverable only at the discretion of the Directors.

Time Bar

The current wording of Class I, Rule 1, Section 4.26 will be amended as follows:

- 26 (a) *In the event that:*
 - i *a Member fails to notify the Managers of any happening or occurrence referred to in Rule 1.4.17 above promptly after he has knowledge thereof; and/or*
 - ii *a Member fails to submit a claim to the Managers for reimbursement of any liabilities, costs or expenses within one year after discharging or settling the same;*



the Member's claim against the Association shall be discharged and the Association shall be under no liability in respect thereof unless the Directors in their absolute discretion shall otherwise determine.

- (b) ***Without prejudice to paragraph (a) of this Rule, in no event shall any claim be recoverable from the Association unless written notice thereof has been given to the Managers within three years after the Member has knowledge of the happening or occurrence giving rise to the claim.***

The purpose of this amendment – comprising the addition of the words “**and/or**” after the paragraph 26(a)(i) in substitution for the word “or” in the current text, the deletion of the word “further” contained in the current text and the addition of the new paragraph 26(b) – is to clarify the obligations of Members in regard to the notification of any happening or occurrence as might give rise to a claim upon the Club.

General Limitations

The final paragraph of Class I, Rule 1, Section 4.32, which currently reads as follows:

Provided further that recovery shall be limited to ONE HUNDRED MILLION DOLLARS (\$100,000,000) any one insured vessel any one accident or occurrence, in respect of claims covered under this Rule, but which are outside the scope of the International Group of P&I Clubs' Pooling Agreement or Excess Reinsurance Policies.

will be deleted. This is because of the current wording unintentionally implies that cover is available up to \$100 million for non-poolable risks automatically, as of right. Although the Club has – and will hopefully continue to have – a facility to insure such risks up to a limit of \$100 million, the granting of such cover is a matter of discretion and subject, in almost every case, to special conditions and the charging of an appropriate additional premium.

Collision

The wording of Class I, Rule 2, Section 3.2.c will be amended so as to read as follows, the change being the addition of a specific reference to cover for SCOPIC liabilities:

- c the discharge, spillage, emission or leakage of oil, petroleum products, chemicals or other substances of any kind or description whatsoever including, but not limited to, remuneration paid, pursuant to the Special Compensation P&I Club (SCOPIC) Clause, or any revision thereof, in respect of the salvage of a ship or vessel with which the insured vessel is in collision.***

Sub-section of Rule 2, Section 3 of the Rules of Class I provides cover for certain collision liabilities normally excluded from the scope of the liabilities insured under the Running Down Clause in a hull policy. The purpose of the additional wording is to ensure that the scope of cover includes liability for remuneration paid under a SCOPIC clause in respect of a salvage of a ship or vessel with which the insured vessel is in collision, insofar as such liability is excluded from coverage under the insured vessel's hull policies.

Cargo

In order to clarify the extent to which an insured vessel's daily running costs may be allowed as part of a claim in regard to the discharge of damaged cargo or the failure of a consignee to remove cargo, such costs will henceforward be made payable only at the discretion of the Directors by explicit reference thereto through the addition of the following proviso to Class I, Rule 2, Section 7.2:

Provided always that where the said additional costs claimed represent the daily running costs of the insured vessel, such costs shall not be payable save to the extent that the Directors, in their absolute discretion, shall otherwise determine.

Unrecoverable General Average Contributions

Class I, Rule 2, Section 12 will incorporate the following additional wording which will follow directly after paragraph 2 of the current wording, the said paragraph 2 henceforward to end with a semi-colon and the word “**and**” added:



- 3 *the Member shall have obtained adequate general average security in the absence of which recovery from the Association will be available if, and only to the extent that, the Member can establish that, at the time of delivery of the cargo, he neither knew nor ought to have known that there had been an occurrence of a general average nature during the voyage, or if, and only to the extent that, the Directors, in their absolute discretion, shall otherwise determine.*

This amendment is intended to limit the Club's exposure to circumstances where Members have not declared general average in a timely fashion nor obtained general average security nor otherwise taken steps to protect themselves and hold other interests responsible. It should be clear that there is an overriding duty on Members to conduct their affairs in such a way that all their rights – and, by extension, those of the Club – arising out of the general average incident are appropriately secured subject always, of course, in individual cases, to the exercise of the Directors' discretion.

Class II: Freight, Demurrage & Defense Insurance

The amendments set out above will also be formally incorporated into, and form an integral part of, the Rules of Class II to the extent that they are consistent with the subject and context of the said Rules of Class II.

Class III: Insurance for Charterers' Risks

The amendments set out above will also be formally incorporated into, an form and integral part of, the Rules of Class III to the extent that they are consistent with the subject and context of the said Rules of Class III.

General Matters

In addition to the substantive amendments to the Rules described above, there are a few typographical errors requiring correction for the forthcoming policy year, none of which has any impact on the cover or the meaning of the Rules. These will be made as required.

For example, in Class I, Rule 4, Section 14 in regard to overspill claims and calls, the current reference to "Section 10", rather than "Section 14", in certain parts of the text is an unintended carry-over from the different numbering of the 2002 Rules which, for the current year, underwent, as will be recalled, a substantial overhaul.

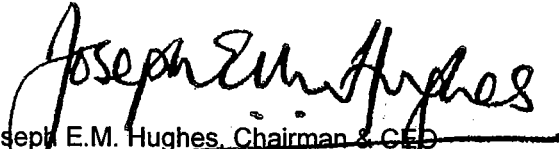
Amendments to the Charter and By-Laws

As has already been advised to Members through Circular No. 14/03 of September 12, 2003, certain changes have been made to the Club's Charter and By-Laws for the forthcoming policy year. They are designed to clarify the meaning of parts of the Club's constitution and to streamline the manner in which the Club conducts its business, particularly in light of its growth and internationalization in recent years.

These amendments – as is made clear in the Circular – do not affect the elements of cover contained in the Rules. However, if any Member requires a further copy of the Circular, and the Charter and By-Law changes attached thereto, the Managers will be pleased to supply them.

In the interim, it is hoped that the foregoing is clear, but if any Member requires any further explanation or comment, the Managers will be happy to respond.

Yours faithfully,


Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB