AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION AND INDEMNITY ASSOCIATION, INC.
THE AMERICAN CLUB
SHIPOWNERS CLAIMS BUREAU, INC., MANAGER
ONE BATTERY PARK PLAZA - 31ST FLOOR NEW YORK, NEW YORK 10004 USA
TEL: +1.212.847.4500 FAX: +1.212.847.4599 WEB: WWW.AMERICAN-CLUB.COM

FEBRUARY 11, 2010

CIRCULAR NO. 06/10

TO MEMBERS OF THE ASSOCIATION

Dear Member:

ISLAMIC REPUBLIC OF IRAN: UNITED STATES AND UNITED KINGDOM CURRENT AND PENDING ECONOMIC SANCTIONS LEGISLATION: "ENABLING" RULE CHANGE FOR 2010

Members may be generally aware of current and pending legislation in the US and the UK prohibiting, or imposing further sanctions/potential sanctions in relation to, dealings with Iran and/or Iranian entities and trading activities involving Iran and/or Iranian entities.

The purpose of this Circular is to describe a number of recent developments which affect, or will potentially affect, Members and, indeed, clubs at large. They are summarized below for the guidance of Members who are also asked to note the incorporation of an additional Rule dealing with these issues for the forthcoming policy year. The purpose of the new Rule is described in greater detail toward the end of this Circular.

US legislation

A number of Iranian shipping companies (including IRISL and a number 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, however, is proposed legislation to amend the Iran Sanctions Act of 1996 to enhance US diplomatic efforts with respect to Iran and to expand the ambit of economic sanctions against that country.

Two similar, but not identical, bills pending in Congress – H.R.2194 and S.2799, both entitled the Iran Refined Petroleum Sanctions Act (IRPSA) – would, if passed, seek to impose new trade sanctions focused on Iran, specifically on the exportation of refined petroleum products to Iranian ports.

Both pieces of legislation have recently passed each of the two chambers of the US Congress, the House of Representatives and the Senate. (H.R. 2194 passed in the House of Representatives and S.2799 passed in the Senate).

For a bill to become an Act or law in the United States, it must pass both chambers in identical form. Where, as is the case with the current bills, there are similar, but not identical, bills from each chamber, a process of reconciliation is initiated in which representatives from both bodies (the House and the Senate) meet to negotiate a reconciled bill.

That reconciliation is not confined to mere middle ground between the two versions, but can also include new approaches. Once the language is made uniform, each chamber must vote again to

approve the reconciled language. The bill is then sent to the President for signature or, as happens in rare instances, veto. Congress can override a presidential veto by a two-thirds vote of both chambers.

Under the House version of IRPSA, sanctions could be imposed against both domestic and foreign entities which:

i. provide ships, vehicles or other means of transportation to deliver refined petroleum products to Iran, or providing services relating to the shipping or other transportation of refined petroleum products to Iran;

ii. underwrite or otherwise provide insurance or reinsurance for an activity described in i. above.

The Senate bill provides for the imposition of sanctions against persons who with actual knowledge provide Iran with refined petroleum resources or engage in any activity that could contribute to the enhancement of Iran's ability to import refined petroleum resources, including:

i. providing ships or shipping services to deliver refined petroleum resources to Iran;

ii. underwriting or otherwise providing insurance or reinsurance for such activity.

The wide language contained in both draft bills could, in relation to shipping activity, include owners, charterers, managers, crew, and, in relation to insurance cover, could include any club in which an offending vessel is entered, as well as its reinsurers.

As drafted, the sanctions would apply in relation to any of the identified shipping and insurance activities relating to any vessel, regardless of country of flag, registry or beneficial ownership, trading refined products into Iran and notwithstanding that, as a matter of the law governing the relevant contracts of carriage and/or insurance, the adventure is lawful. These sanctions, if implemented, would make an offending shipowner, vessel or insurer a sanctions target.

Potential sanctions for transgression could include barring sanctioned persons and/or 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.

UK legislation

The UK Financial Restrictions (Iran) Order 2009 came into effect on October 12, 2009. The material provisions of the Order (as clarified in subsequent discussions with the UK Treasury) prohibit the provision of insurance cover to IRISL owned, controlled or operated vessels as a consequence of the implication of the Order. However, no IRISL vessels are currently insured by International Group clubs.

The Group has not been advised of any further intended action by the UK Treasury in relation to insurance arrangements for other Iranian companies or in relation to trading to Iran, but, depending on developments in the United States, this possibility cannot be ruled out. The Group is continuing to monitor the situation, and further reports will be made of any material developments in this respect.

Club cover

Given practical issues of cover arising out of the pending US legislation, the general uncertainty surrounding how this might be implemented, and in light of the imposition of prohibitions and sanctions generally, there has been extensive discussion within the International Group, and between the Club and its legal advisors in Washington, DC, as to how these matters should be addressed in a manner suitably to protect the Club from the unintended infringement of such regulations as might ultimately emerge in the US or elsewhere.

In this context, it should be borne in mind – as Members will already be aware – that the American Club has already obtained OFAC licensing, pursuant to the current state of the law, for a range of circumstances applying to claims potentially arising in Iran and other embargoed countries.

However, having considered the matter in conjunction with specialist legal advice on this subject, your Board has decided to enact the following enabling provisions to take the form of new sub-section 53 to Class I, Rule 1, Section 4 – General Insurance Provisions – the contents of which are as set out below:

> ***Trade Sanctions and Similar Governmental and Regulatory Prohibitions***
>
> ***53 Notwithstanding and without prejudice to any other provision of these Rules or the Association's Charter or By-Laws or a Member's Certificate of Entry into the Association relating to the amendment of these Rules, these Rules may, on such notice as the Directors may in their absolute discretion decide, be amended at any time (including with effect from any time during the course of any current or future Insurance Year) in such fashion and to such extent as the Directors may in their absolute discretion determine is necessary as a result of the implementation of, or potential or proposed implementation of, any applicable change in legislation, regulation, prohibition, restriction, or requirement to obtain any license, consent, or authorization; or the potential or actual imposition of economic or other sanctions against the Association by any State, government, official body, regulatory or competent authority, international organization, or the like.***

The existing Sub-section 53 would be renumbered as Sub-section 54.

In addition, the new provisions set out above will also be formally incorporated into, and form an integral part of, the Rules of Class II (Freight, Demurrage and Defense Insurance) and Class III (Insurance for Charterers' Risks) to the extent that they are consistent with the subject and context of the said Classes II and III.

As, it is hoped, will be clear from the wording of the additional Rule, the purpose of the change is to empower your Board to determine and bring into effect such further amendments to the Club's Rules specifically to address circumstances where intervening, or existing, legislation, regulation or other executive action prohibits, imposes, or has the potential of imposing, sanctions in respect of insurance cover provided by the Club which could expose the membership at large to the consequences of the specific trading activities of an individual Member or Members of the Club.

Given that legislation or regulation imposing such sanctions may be introduced and/or enter into force at short notice, the enabling power would avoid the delay inherent in formal year-end Rule

change processes and the risk to the Club's membership in general pending implementation of such changes.

In addition to this, in any event, the Club's legal experts in Washington take the view that – at least so far as US regulators are concerned – the adoption by the Club of an enabling Rule along the lines set out above would, as a matter of generality, be viewed favorably by the appropriate US government authorities.

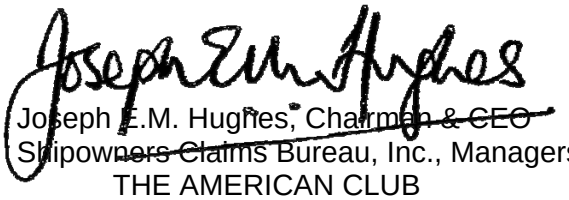
It is hoped that the foregoing is clear and Members are asked to note their records accordingly. The new Sub-section 53 to Class I, Rule 1, section 4 will, of course, appear in the next edition of the Club's Rule Book to be published shortly. Once again, it should be remembered that the Rule change does not in and of itself inhibit or constrain the existing scope of cover, but is designed to provide a means of protecting the Club at large in circumstances where such protection might be required at some future date.

Shipowners obligations arising under contacts of carriage

The International Group is intending to liaise with relevant shipowner associations, in light of the foregoing, and its implications, with a view to developing appropriate protective clauses for incorporation into charterparty and bill of lading contracts if and when required.

You Managers will be keeping Members informed of developments in this and related areas as events should unfold over the months ahead. In the meantime, they will be pleased to reply to any queries in regard to the foregoing, or generally, as Members might have.

Yours faithfully,



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