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TO MEMBERS OF THE ASSOCIATION

Dear Member:

**UNITED STATES ECONOMIC SANCTIONS IN REGARD TO SYRIA
EUROPEAN UNION ECONOMIC SANCTIONS IN REGARD TO SYRIA**

As Members may be aware, enhanced sanctions against Syria have recently been imposed by both the United States and the European Union.

This Circular addresses developments in this area, both as they affect the interests of Members and as they affect the provision of service by the Club. Its contents are derived from advice very recently received from the Club's attorneys in Washington, DC who specialize in this important area of regulatory compliance.

US SANCTIONS AGAINST SYRIA

President Obama promulgated an Executive Order on August 17, 2011 which imposed new and additional US economic sanctions in regard to Syria with effect from August 18, 2011.

The new sanctions block the property of the Government of Syria (and its agencies, instrumentalities, and controlled entities). They also prohibit certain trade transactions with or involving Syria. US sanctions against Syria in existence prior to August 18, prohibiting the exportation and re-exportation of US origin products to Syria and targeting certain Syrian entities and individuals, remain in force.

United States persons, and the transactions of non-United States persons which have a nexus or connection to a United States person or to the United States, must comply with the provisions of the Executive Order. The American Club and its Members that are organized under US law, or located in the United States, are United States persons.

Summary of the prohibitions and requirements of US economic sanctions with respect to Syria

1. Freezing the property and assets of Syrian sanctions targets

Under the US economic sanctions against Syria, the property and all interests in property of the Government of Syria and certain designated Syrian entities and individuals (collectively, "Syrian Sanctions Targets") are blocked (frozen).

A non-exhaustive list of Syrian Sanctions Targets appears on the List of SDNs and Blocked Persons, which is available on the US Treasury Department's Office of Foreign Assets Control (OFAC)'s website. As will be recalled, OFAC is the agency which administers and enforces US economic sanctions. The universe of Syrian Sanctions Targets on OFAC's List of SDNs and

Blocked Persons is not exhaustive because there are many entities falling within the definition of the “Government of Syria” which cannot be individually listed.

Under the Executive Order, a person controlled (in fact) by, or acting for or on behalf of, a Syrian Sanctions Target is a Syrian Sanctions Target. What constitutes “control” in any given case is a fact-sensitive inquiry and depends on the facts and circumstances of each case. Ownership of 50% or more of such an entity constitutes control.

The following are some Syrian Sanctions Targets:

- GENERAL PETROLEUM CORPORATION;
- SYRIAN COMPANY FOR OIL TRANSPORT (a.k.a. SYRIAN CRUDE OIL TRANSPORTATION COMPANY; a.k.a. "SCOT"; a.k.a. “SCOTRACO”);
- SYRIAN GAS COMPANY;
- SYRIAN PETROLEUM COMPANY
- SYTROL

2. *Prohibited transactions with Syrian sanctions targets*

In addition to requiring the blocking of and prohibiting financial resources from being made available to Syrian Sanctions Targets, the Executive Order also prohibits United States persons from performing contracts and engaging in other transactions with or involving Syrian Sanctions Targets. The Executive Order does not prohibit permissible trade with Syria (see below on prohibited trade) as long as such trade does not involve any Syrian Sanctions Targets.

3. *Prohibited Trade and Transactions with respect to Syria*

The following trade and transactions with respect to Syria are prohibited under the Executive Order:

- a. new investment in Syria by United States persons;
- b. the exportation, re-exportation, sale, or supply from the United States, or by a United States person, of any services to Syria;
- c. the importation into the United States of petroleum or petroleum products of Syrian origin;
- d. any transaction or dealing by a United States person related to petroleum or petroleum products of Syrian origin;
- e. any approval, financing, support, or facilitation of a transaction by a United States person of a transaction by a non-United States person if the transaction by the non-United States person would be prohibited if performed by a United States person or in the United States – essentially, this means a United States person cannot help a non-United States person to do anything that a United States person is prohibited from doing; and
- f. Exports and reexports of US products to Syria.

Exceptions and Authorizations

OFAC may authorize transactions that are otherwise prohibited by the Executive Order. It has issued licenses authorizing, for example, certain diplomatic services, legal services, and personal remittances. Other transactions and activities may be authorized by OFAC specific licenses.

Application of prohibitions, compliance & further guidance

Compliance with the current US sanctions with respect to Syria can be achieved by due diligence and, *inter alia*:

- Freezing relevant assets and other property (including stopping performance under affected contracts). **Example:** The sanctions prohibit the American Club from providing coverage to a Member that is a Syrian Sanctions Target, or for a vessel that is chartered out to a Syrian Sanctions Target.
- Refraining from engaging in prohibited transactions with or involving Syrian Sanctions Targets. **Example:** The sanctions prohibit the American Club from making a payment to a Syrian governmental entity (such as a port authority in Syria) on behalf of a Member.
- Refraining from exporting services to a Member while the Member or a covered vessel is in Syria. **Example:** Absent an OFAC license, the sanctions prohibit the American Club from coming to the assistance of, paying a claim to, or issuing security for a Member if the incident in question arises in Syria.
- Refraining from providing, **for example**, P&I coverage to a Member (that is not a Syrian Sanctions Target) transporting petroleum or petroleum products from Syria. However, **for example**, the American Club is not prohibited from providing P&I coverage to a Member (that is not a Syrian Sanctions Target) transporting cotton or other agricultural commodities from Syria. Payments under such coverage may be prohibited if made (directly or indirectly) to a Syrian Sanctions Target that is a claimant.
- The importation of services from Syria is not prohibited.

To ensure complete compliance with US sanctions against Syria, all dealings and transactions with or involving Syria or Syrian entities should be screened and carefully scrutinized.

Members of the American Club who are not United States persons may also need to comply with sanctions against Syria by the European Union (EU) (discussed below) or other states to whose jurisdiction they are subject. The EU has very recently augmented existing targeted sanctions and imposed new sanctions on Syria and other states may follow suit. However, the United Nations has not yet adopted any resolution calling upon states to impose sanctions against Syria.

EU SANCTIONS AGAINST SYRIA

On May 9, 2011, the Council of the European Union adopted Council Regulation (EU) No 442/2011 (“the Regulations”) concerning restrictive measures in view of the situation in Syria. The Regulations entered into force on May 10, 2011. The new sanctions under the Regulations (“the

EU Syria Sanctions”) block the property and financial assets of certain designated individuals and prohibit certain trade transactions with or involving Syria.

Summary of the prohibitions and requirements of EU economic sanctions with respect to Syria

1. Freezing the Funds and Economic Resources of Syrian Sanctions Targets

The EU Syria Sanctions, *inter alia*, block (freeze) all funds and economic resources belonging to, owned, held or controlled by certain persons, entities and bodies identified as being responsible for the violent repression of the civilian population in Syria (collectively, “Syrian Sanctions Targets”), and natural or legal persons and entities associated with them.

In the context of the Regulations, “freezing of funds” means, *inter alia*, preventing any transfer, use of, access to, or dealing with financial assets and benefits of every kind in any way that would result in any change in their volume, amount, location, ownership or possession. This also includes portfolio management.

In the context of the Regulations, “freezing of economic resources” means preventing the use of assets of every kind, whether tangible or intangible, movable or immovable, which are not funds but may be used to obtain funds, goods or services to obtain funds, goods or services in any way, including, but not limited to, by selling, hiring or mortgaging them.”

A list of Syrian Sanctions Targets is contained in the Regulations, as amended on May 23, 2011 and June 23, 2011. Currently, the list only names individuals. To date, no companies have been listed as Syrian Sanctions Targets. It should be noted, however, that the lists are updated regularly and, thus, are subject to change.

There are two lists comprising the complete list of Syrian Sanctions Targets. The two lists are available at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:136:0045:0047:EN:PDF>
and

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:199:0033:0034:EN:PDF>

2. Prohibited transactions with Syrian sanctions targets

In addition to requiring the blocking financial resources, the Regulations also provide that no funds or economic resources shall be made available, directly or indirectly, to or for the benefit of Syrian Sanctions Targets. Any participation, knowingly and intentionally, in activities the object or effect of which is, directly or indirectly, to circumvent the aforementioned measures is also prohibited.

3. Prohibited trade and transactions involving Syria

Besides targeting specific individuals, the Regulations also prohibit certain transactions with respect to Syria.

For example, the sale, supply, transfer or export of equipment which might be used for internal repression, such as, *inter alia*, firearms and combat vehicles, whether or not originating in the EU, to any person, entity or body in Syria, or for use in Syria, is prohibited. The provision, directly or indirectly, of technical assistance or brokering services related to such equipment is also prohibited.

The provision, directly or indirectly, to Syria of technical assistance related to the goods and technology listed in the Common Military List of the European Union or related to the provision, manufacture, maintenance and use of goods included in that list is prohibited.

The Regulations also prohibit the provision of financing or financial assistance related to the goods and technology listed in the Common Military List or related to equipment that might be used for internal repression. This prohibition, in particular, covers grants, loans and export credit insurance, for any sale, supply, transfer or export of such items, or for any provision of related technical assistance to any person, entity or body in Syria or for use in Syria.

Again, any participation, knowingly and intentionally, in activities the object or effect of which is, directly or indirectly, to circumvent or evade the foregoing prohibitions is also prohibited.

Exceptions and authorizations

The Regulations contain several exceptions to prohibitions and leaves room for EU member state authorities to authorize certain transactions.

For example, the prohibitions in the Regulations authorize the payment of interest and the crediting of earnings or dividends on frozen account balances and certain deposits and credits to blocked accounts. Furthermore, it is possible for the competent EU member state authorities to, *inter alia*, authorize the release of certain frozen funds or economic resources, if:

- (i) the funds or economic resources in question are the subject of a judicial, administrative or arbitral lien established prior to the date on which the respective Syria Sanctions Target was blacklisted, or of a judicial, administrative or arbitral judgment rendered prior to that date;
- (ii) the funds or economic resources in question will be used exclusively to satisfy claims secured by such a lien or recognized as valid in such a judgment, within the limits set by applicable laws and regulations governing the rights of persons having such claims;
- (iii) the lien or judgment is not for the benefit of a Syria Sanctions Target; and
- (iv) recognizing the lien or judgment is not contrary to public policy in the Member State concerned.

The respective competent EU member state authorities are also able to authorize the release of certain frozen funds or economic resources, if they determine that a payment by a Syria Sanctions Target is due under a contract or agreement that was concluded by, or an obligation that arose for, the designated person prior to the date the Syria Sanctions Target was designated/identified, provided that the payment is not directly or indirectly received by such Syria Sanctions Target.

Application of prohibitions

The Regulations apply:

- (i) within the territory of the European Union, including its airspace;
- (ii) on board any aircraft or any vessel under the jurisdiction of a member state;
- (iii) to any person inside or outside the territory of the European Union who is a national of a member state;
- (iv) to any legal person, entity or body which is incorporated or constituted under the law of a member state; and
- (v) to any legal person, entity or body in respect of any business done in whole or in part within the Union.

The Regulations therefore apply, *inter alia*, to banks, financial institutions, charitable organizations and non-governmental organizations operating in the EU or established under the law of a member state, to nationals of member states, and to other bodies and persons in the Union (collectively “EU persons”).

The Regulations do not apply to subsidiaries operating wholly outside the EU and which do not have legal personality under the law of a member state.


Compliance

To ensure complete compliance with EU sanctions against Syria, all dealings and transactions with or involving Syria or Syrian entities by EU persons should be screened and carefully scrutinized. The conduct of due diligence is the key to avoiding violations.

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Members requiring further information in regard to the sanctions set out above, or generally, are invited to contact Mr. Charles J. Cuccia, Corporate Compliance Officer for Shipowners Claims Bureau, Inc. at Tel: +1 212 847 4539 or Email: charles.cuccia@american-club.com.

Yours faithfully,



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

THE AMERICAN CLUB