

Sanctions – Impact on Chartered Vessel Entries

Background

As Members will know, there has been a recent increase in the use of sanctions by national and international governmental organisations such as the United Nations and European Union, as a means of bringing political and economic pressure to bear on certain regimes/countries around the world.

Details of recent sanctions measures imposed against Iran, Libya and Cote D'Ivoire may be found on the dedicated Sanctions page on the Club's website.

In the context of international trade, the imposition of sanctions requires all involved parties, including the P&I Clubs, to assess the impact on the insurance and related services they offer, in order to ensure that they are not in breach or facilitating a breach of sanctions measures. The Club has issued a number of relevant Articles, Circulars and Risk Alerts directly concerning sanctions issues, and the Managers wish to draw Members' attention to some practical insurance considerations which may affect the chartering of ships.

Provisions of the Charterers' Clauses



In the context of Charterers' entries with the Club, sanctions are potentially relevant to the following clauses of the Charterers' cover: -

Clause 4 ii – Open Covers – the Managers may decline entries declared;

Clause 13 ii – Recovery – there is no right of recovery from the Club if reimbursement to the Member would expose the Club to a sanctions risk;

Clause 19 i b – Imprudent Trading – a Member's employment of a ship in sanctionable activity may amount to imprudent trading and

preclude recovery from the Club for liabilities arising as a result;

Clause 24 i a (ii) – Classification and Eligibility of Ships for Chartered Entry – the registered owners and direct disponent owner of a ship chartered by a Member and entered in the Club for charterers' liabilities, must have P&I insurance with an IG Club or insurance which in the Managers' view is equivalent;

Clause 30 iv – Reinsurance – there is no right of recovery in respect of liabilities which the Club itself cannot recover under applicable reinsurances, because of the risk

of sanctions or other adverse action against reinsurers.

Clause 32 – cessation of Membership by virtue of applicable sanctions legislation/regulations.

The provisions of the Charterers' Clauses referred to above are a reflection of the care that the Club must exercise when writing chartered business, to ensure so far as practicable that the Club and its Members are not adversely impacted by risks associated with breaches of sanctions measures.

The Club further protects itself and the membership as a whole by means of protective clauses included in Certificates of Entry, which form part of the terms upon which insurance is provided. Such protective clauses may require that vessels declared for chartered entry must be entered with an IG P&I Club, or otherwise have equivalent insurance in place.

In addition, in certain cases entries may be legally frustrated and/or void for illegality by the operation of applicable sanctions measures.

Practical Considerations for Chartering Ships

Clearly, if a charterer-member of the Club charters a vessel that is itself sanctioned property, or owned by a sanctioned entity, then the Club cannot provide cover in respect of that ship, and indeed may need to take steps to terminate or cancel existing entries.

In the case of Iran, Article 26 of EU Regulation 961/2010 prohibits the provision of insurance to any Iranian person, entity or body as set out in the Regulation (other than Iranian persons, entities or bodies based in the European Union), namely:

1. Iran or its Government and its public bodies, corporations or agencies
2. An Iranian person, entity or body other than a natural person, or
3. A natural person or a legal person, entity or body when acting on behalf or at the direction of a legal person, entity or body referred to in 1 or 2 above,

Given this provision, many ships owned by Iranian companies are unlikely to be insured for P&I risks with an IG P&I Club, and hence are very unlikely to satisfy the requirements under Clause 24 of the Charterers' Terms to enable the Club to provide P&I cover to a charterer of such a ship.

Members also need to bear in mind the provisions of Clause 4 of the Charterers' Terms in the context of Open Covers, particularly if their practice is to make declarations retrospectively.

In the context of vessels calling at Iranian ports, members are referred to the Club's Risk Alert entitled "[Iran, Sanctions and the Provision of Security](#)", warning of difficulties which may be encountered in the provision of

guarantees to Iranian entities in light of existing sanctions regulations, in particular EU Regulation 961/2010.

The same difficulties that exist in relation to the provision of guarantees in favour of Iranian entities could equally apply in other States against which sanctions measures are in place. For instance in Libya and Cote D'Ivoire it is possible that a seemingly independent entity might be state controlled. Due to the fact that in both cases state-owned entities are subject to sanctions measures, contracting with those entities or making payments to them may result in a breach of sanctions measures and difficulties in the provision of Club guarantees.

Members are advised to consider these issues before they commit to chartering vessels since such activity may be impacted by applicable sanctions regulations and legislation.

In the case of any doubt regarding the impact of sanctions regulations and legislation on their chartering activities, Members are asked to consult with the Managers.

For further information on this topic please refer to your relevant Syndicate contact or the Head of Loss Prevention at Steamship Insurance Management Services Ltd.