

CIRCULAR

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CIRCULAR NO. 5/04

TO MEMBERS OF THE ASSOCIATION

Dear Member:

WAR AND TERRORIST RISKS – 2004 POLICY YEAR

For the 2004 policy year, cover for war and terrorist risks will remain available from the Club in accordance with the Proviso to Rule 3.1.1. of the Rules of Class I. The cover will include liabilities arising from acts of terrorism as defined by the United States Terrorism Risk Insurance Act, 2002 (TRIA). A premium of \$0.0025 per gross ton is deemed to be attributable to the US risk in accordance with the terms of TRIA.

The remainder of this Circular sets out the main elements of the cover provided.

Risks covered

The risks covered are those provided for by Rule 2 of Class I of the Club's Rules in accordance with each individual Member's terms of entry as set out in relevant Certificates of Entry and any endorsements thereto.

Excess point

The special cover is subject to an excess of either:

- the "proper value" of an insured vessel (to be determined by the Board of Directors) which for this purpose will be deemed not to exceed \$100 million; or
- the amount recoverable in respect of the claim under any other policy of insurance, whether of war risks or otherwise;

whichever is the greater and subject always to a minimum deductible of \$50,000 any one accident or occurrence, any one vessel or craft.

Limit of cover

The limit of cover is \$400 million each vessel, any one accident or occurrence or series thereof arising from an event in excess of a vessel's "proper value" as defined above, or \$50 million each vessel, any one accident or occurrence or series thereof arising from one event in respect of vessels employed as accommodation vessels in and around Athens during the period of the Olympic Games and associated sporting events.

However, where a Member and another party or other parties interested in the operation of a vessel are insured under more than one owner's and/or charterer's entry with the Club, or with the Club and any other club(s) which participate(s) in the Pooling Agreement and the General Excess Loss Reinsurance Contract, the aggregate of claims brought against the Club and such other club(s) in respect of losses, liabilities, costs and expenses covered under this war risk P&I cover will be limited to \$400 million (or \$50 million, as the case may be, see above) any one accident or occurrence each vessel. If such claims exceed this limit, the liability of the Club in respect of each Certificate of Entry will be limited to that proportion of that limit which claims recoverable from the Club under that Certificate of Entry bear to the aggregate of the said claims recoverable from the Club and from such other club(s), if any.



It should be emphasized that the special war risks P&I cover is an excess cover only. It is not intended to be a substitute for a Member's primary P&I war risks cover, whether arranged with a hull and machinery insurer or with another insurer.

A Member should effect such cover with a minimum limit of the proper value of the insured vessel. If a Member has effected P&I war risks cover in excess of the proper value of the ship, either by opting for a higher limit on his primary cover or by purchasing additional cover, the special war risks P&I cover will apply only in excess of the amount recoverable under all of the other P&I war risks insurances.

Exclusions

The special cover is to subject to the following market Chemical, Bio-chemical, Electromagnetic Weapons and Cyber Attack Clause wording:

This clause shall be paramount and shall override anything contained in this insurance inconsistent therewith:

1. *In no case shall this insurance cover loss damage liability or expense directly or indirectly caused by or contributed to by or arising from*

1.1 *any chemical, bio-chemical or electromagnetic weapon.*

1.2 *the use or operation, as a means for inflicting harm, of any computer virus.*

This wording is identical to that which applies to cover for the 2003 policy year. Reference is made to the broker's clarification of the application of this clause as set out in Circular No. 7/03 of April 1, 2003.

However, Members should also be aware that your Board has decided that, if possible, the Club should provide supplementary cover to Members in respect of P&I liabilities excluded from Members' war risks P&I cover by virtue of this exclusion or an equivalent exclusion in a Member's primary war risks P&I policy.

The terms and conditions on which this supplementary cover can be made available will depend on the extent to which the other clubs in the International Group are willing to pool these liabilities, since commercial reinsurance is not readily available for this risk which is the subject of a general exclusion in the market. It is therefore expected that only limited cover, not exceeding \$20 million each vessel, each accident or occurrence, will be made available for this risk.

Members will be kept fully informed as to the development of this proposed scheme over the weeks ahead.

Trading areas: cesser of cover

At any time or times before, or at the commencement of, or during the currency of any policy year, the Directors may, in their discretion, determine that any ports, places, countries, zones or areas (whether of land or sea) should be excluded from the insurance provided by this special cover.

Unless otherwise provided by the Directors, the special cover will cease in respect of such ports, places, countries, zones or areas at midnight on the seventh day following the issue to Members of notice of such determination. Except to the extent that the Directors in their discretion otherwise decide, there will be no recovery under this special cover in respect of any claim howsoever arising out of any event, accident or occurrence within the said area after such date.

Automatic cancellation

Whether or not notice has been given in the circumstances described in the previous section, the special cover will terminate automatically:

- (i) upon the outbreak of war (whether there be a declaration of war or not) between any of the following countries:

United States of America, United Kingdom, France, the Russian Federation, the People's Republic of China and the insurance excludes loss, damage, liability or expense arising from such outbreak of war;



- (ii) in respect of any ship, in connection with which cover is granted hereunder, in the event of such ship being requisitioned either for title or use and the insurance excludes loss, damage, liability or expense arising from such requisition.

Notice

Notwithstanding any other term or condition of the special cover, the Directors may, in their discretion, cancel it giving seven days' notice to Members (such cancellation becoming effective on the expiry of seven days from midnight of the day on which notice of cancellation is issued by the Club) and the Directors may, at any time after the issue of notice of such cancellation, resolve to reinstate special cover pursuant to the Proviso to Rule 3.1.1. of the Rules of Class I on such terms and conditions and subject to such limit as they, in their discretion, may determine.

It is hoped that the foregoing suitably describes the dimensions of the Club's continuing cover for war and terrorist risks going forward. However, if any further explanation or assistance is required, the Managers will be pleased to respond.

Yours faithfully,

A handwritten signature in black ink, reading "Joseph E.M. Hughes". The signature is written in a cursive style and is positioned above a horizontal line.

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