



AUGUST 16, 2012

CIRCULAR NO. 22/12

TO MEMBERS OF THE ASSOCIATION

Dear Member:

UNITED STATES SANCTIONS AGAINST IRAN: ADDITIONAL LEGISLATION EFFECTIVE AUGUST 10, 2012

Members are asked to note further developments in the United States with respect to sanctions against Iran.

Background

In Circular No. 21/12 of August 6, 2012, Members were informed of impending legislation – the Iran Threat Reduction and Syria Human Rights Act of 2012 (H.R. 1905) (the “Act”) – passed by the US Congress. On August 10, 2012, President Obama signed the Act into law.

This detailed and far-reaching Act builds on and strengthens existing US sanctions against Iran, and seeks to prevent various activities which could materially contribute to the Government of Iran’s development of weapons of mass destruction, or support for acts of terrorism.

The Act provides for the imposition of sanctions with respect to the transportation of crude oil from Iran (and with respect to the insurance of such transportation) and deems such activity to be such that could materially contribute to the Government of Iran’s development of weapons of mass destruction, or support for acts of terrorism, and thus be sanctionable.

The Act reflects the view of Congress that the Iranian energy sector remains a zone of proliferation concern since the Government of Iran continues to divert revenues from petroleum sales to finance its illicit nuclear and missile activities. The legislation urges the President to apply the full range of sanctions under the Iran Sanctions Act of 1996, as amended by this Act, to address the threat posed by the Government of Iran.

A summary of the main provisions of the Act that specifically affect or apply to (or which are likely to apply to) the activities of shipowners and insurers/reinsurers involving Iran are summarized in the attached appendix. Also, significantly, the new law holds US parent companies liable for the activities of their controlled foreign subsidiaries if the activities are of a type that the US parent cannot engage in under sanctions prohibitions applicable to it. The Act also imposes new disclosure and reporting obligations on entities whose securities are publicly-traded in the United States.



Compliance and due diligence

Given the number and complexity of US laws governing US sanctions against Iran (which are cumulative, in some aspects overlapping, and which provide for comprehensive prohibitions and the imposition of sanctions against a wide range of non-US persons trading with Iran), and the constantly evolving rules, the risk that a transaction or activity involving Iran or an Iranian entity will implicate US prohibitions, or trigger the imposition of US sanctions, at any given time, is high. Ambiguities in the law make this risk higher.

Legal determinations as to whether a transaction is permitted or whether it constitutes sanctionable activity are very fact-sensitive. Members are therefore urged to exercise a high degree of caution and due diligence and to obtain expert legal guidance related to their activities involving Iran in order to avoid the imposition of sanctions as well as violations of the law. This will also prevent members from inadvertently causing the American Club to violate the law.

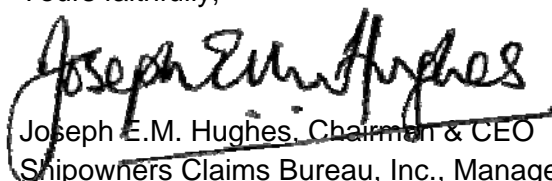
Questions and guidance

For any questions regarding any aspect of the foregoing or with respect to Iran and other sanctions in general, please contact:

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Your Managers will keep abreast of developments in regard to the Act, and other developments regarding additional US economic sanctions, and Members will continue to be informed accordingly. They also wish to thank The Eren Law Firm of Washington, DC, for their assistance in providing the summary contained in the attached appendix, and generally in the composition of this Circular.

Yours faithfully,


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

APPENDIX

to Circular No. 22/12 of August 16, 2012

SUMMARY OF THE PROVISIONS OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 CONCERNING INSURANCE AND MARITIME TRANSPORTATION

Imposition of sanctions with respect to the provision of goods, services, technology, or support for the energy or petrochemical sectors of Iran

Subject to certain exceptions, the Act requires the imposition of three or more of the sanctions described in the Iran Sanctions Act with respect to a person that knowingly, on or after the date of the enactment of the Act, sells, leases, or provides to Iran goods, services, technology, or support, as described below,

- (i) any of which has a fair market value of \$1,000,000 or more; or
- (ii) that, during a 12-month period, have an aggregate fair market value of \$5,000,000 or more.

The goods, services, technology, or support are goods, services, technology, or support that could directly and significantly contribute to the maintenance or enhancement of Iran's

- (i) ability to develop petroleum resources located in Iran; or
- (ii) domestic production of refined petroleum products, including any direct and significant assistance with respect to the construction, modernization, or repair of petroleum refineries or directly associated infrastructure, including port facilities, railroads, or roads, if the primary use of those facilities, railroads, or roads is for the transportation of refined petroleum products.

Development and purchase of petrochemical products from Iran

The Act also requires the imposition of sanctions with respect to a person if the person knowingly, on or after the date of the enactment of the Act sells, leases, or provides to Iran goods, services, technology, or support described below,

- (i) any of which has a fair market value of \$250,000 or more; or
- (ii) that, during a 12-month period, have an aggregate fair market value of \$1,000,000 or more.

The goods, services, technology, or support are those that could directly and significantly contribute to the maintenance or expansion of Iran's domestic production of petrochemical products.

Imposition of sanctions with respect to transportation of crude oil from Iran and evasion of sanctions by shipping companies

The Act requires the imposition of sanctions against any person that

- (i) is a controlling beneficial owner of, or otherwise owns, operates, or controls, or insures, a vessel that, on or after the date that is 90 days after the date of the Act, was used to transport crude oil from Iran to another country; and

- (ii) in the case of a person that is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used; or in the case of a person that otherwise owns, operates, or controls, or insures, the vessel, the person knew or should have known the vessel was so used.

The Act provides that the decision to impose sanctions as provided above shall only be made if there is a sufficient supply of petroleum and petroleum products produced in countries other than Iran to permit purchasers of petroleum and petroleum products from Iran to reduce significantly their purchases from Iran at the time of the transportation of the crude oil.

The Act also provides that sanctions shall not be imposed with respect to the transportation of crude oil from Iran if the transportation is to a country to which a waiver (waivers granted for countries which have significantly reduced their purchases of crude oil from Iran) has been granted under paragraph (4) (D) of section 1245 (d) of the National Defense Authorization Act for Fiscal Year 2012 and such waiver applies at the time of the transportation of the crude oil.

Concealing Iranian origin of crude oil and refined petroleum products

The Act, 90 days after its enactment, requires the imposition of sanctions against vessels, ship owners, and ship managers (persons who own and control vessels) if such persons have actual knowledge or, knowingly conceal, the Iranian origin of crude oil or refined petroleum products transported on vessels, including by:

- (i) permitting the operator of the vessel to suspend the operation of the vessel's satellite tracking device; or
- (ii) obscuring or concealing the ownership, operation, or control of the vessel by
 - a. the Government of Iran;
 - b. the National Iranian Tanker Company (NITC) or the Islamic Republic of Iran Shipping Lines (IRISL); or
 - c. any other entity any other entity determined by the President to be owned or controlled by the Government of Iran or NITC or IRISL.

The Act also authorizes the President, in addition to other sanctions that may be imposed, to prohibit a vessel owned, operated, or controlled by a person, including a controlling beneficial owner, with respect to which the President has imposed sanctions and that was used for the activity for which the President imposed those sanctions from landing at a port in the United States for a period of not more than two years after the date on which the President imposed those sanctions.

The Act provides that a person shall be deemed to have actual knowledge that a vessel is owned, operated, or controlled by the Government of Iran or NITC, IRISL, etc. if the International Maritime Organization vessel registration identification for the vessel is

- (i) included on a list of specially designated nationals and blocked persons maintained by the U.S. Treasury's Office of Foreign Assets Control, and

- (ii) identified by the Office of Foreign Assets Control as a vessel in which the Government of Iran or another entity such as NITC or IRISL has an interest.

Under the Act the term 'Iranian origin' means

- (i) with respect to crude oil, that the crude oil was extracted in Iran; and
- (ii) with respect to a refined petroleum product, that the refined petroleum product was produced or refined in Iran.

Exception - underwriting services and insurance and reinsurance

Sanctions will not be imposed against insurers and reinsurers that provide insurance for the transportation of crude oil or refined petroleum products from Iran if it is determined that such entities exercised due diligence in establishing and enforcing official policies, procedures, and controls to ensure that they do not provide underwriting services or insurance or reinsurance for such transportation.

The Act requires, within 90 days after the date of the enactment of the Act, that the President prescribe regulations or guidelines that are necessary to implement the above provisions of the Act.

Expansion of sanctions with respect to exports, transfers and transshipments assisting Iran's development of weapons of mass destruction

The Act provides for the imposition of sanctions against any person which has exported or transferred, or permitted or otherwise facilitated the transshipment of, any goods, services, technology, or other items to any other person; and knew or should have known that

- (i) the export, transfer, or transshipment of the goods, services, technology, or other items would likely result in another person exporting, transferring, transshipping, or otherwise providing the goods, services, technology, or other items to Iran; and
- (ii) the export, transfer, transshipment, or other provision of the goods, services, technology, or other items to Iran would contribute materially to the ability of Iran to
 - (I) acquire or develop chemical, biological, or nuclear weapons or related technologies; or
 - (II) acquire or develop destabilizing numbers and types of advanced conventional weapons.

Expansion of certain sanctions under the Iran Sanctions Act

The Act amends present law (the Iran Sanctions Act, as amended by CISADA) by expanding available sanctions. The Act authorizes the President to ban US persons from making investments in a sanctioned person. The Act also provides for the denial of visas to, and for the exclusion from the United States of, any foreign individual that is a corporate officer or principal of, or a shareholder with a controlling interest in, a sanctioned person. The Act also provides for sanctions against executive officer or officers of any sanctioned person, or on persons performing similar functions and with similar authorities as such officer or officers. The Act goes on to state that sanctions apply with respect to sanctionable activities described in the Iran Sanctions Act of 1996, as amended by the Act, commenced on or after such date of enactment.

The Act also provides for amendments to present law related to waivers with respect to the imposition of sanctions and reports to Congress on the status and effectiveness of sanctions.

Under the Act, the term 'petrochemical product' includes any aromatic, olefin, or synthesis gas, and any derivative of such a gas, including ethylene, propylene, butadiene, benzene, toluene, xylene, ammonia, methanol, and urea.

Imposition of sanctions with respect to the provision of vessels or shipping services to transport certain goods related to proliferation or terrorism activities to Iran

The Act requires the imposition of sanctions against a person that, on or after the date of the enactment of this Act, knowingly provides a vessel, insurance or reinsurance, or any other shipping service, for the transportation to or from Iran of goods that could materially contribute to the activities of the Government of Iran with respect to the proliferation of weapons of mass destruction or support for acts of international terrorism. The Act provides for the blocking and prohibition of all transactions in all property and interests in property of sanctioned persons, as specified below, if such property and interests in property are in the United States, come within the United States, or are, or come within, the possession or control of a United States person.

The persons specified above are

- (i) the person that sold, leased or provided a vessel, or provided insurance or reinsurance, or another shipping service described above; and
- (ii) any person that is a successor entity to the person referred to above; owns or controls the person referred to above, if the person that owns or controls the person referred to above had actual knowledge or should have known that the person referred to above provided the vessel, insurance or reinsurance, or other shipping service; or

is owned or controlled by, or under common ownership or control with, the person referred to above, if the person owned or controlled by, or under common ownership or control with (as the case may be), the person referred to above knowingly engaged in the provision of the vessel, insurance or reinsurance, or other shipping service.

The President may waive the requirement to impose sanctions with respect to a person as provided above on or after the date that is 30 days after the President

- (i) determines that such a waiver is vital to the national security interests of the United States; and
- (ii) submits to the appropriate congressional committees a report that contains the reasons for that determination.

Imposition of sanctions with respect to provision of underwriting services or insurance or reinsurance for the National Iranian Oil Company or the National Iranian Tanker Company

Not later than 60 days after the date of its enactment (August 10, 2012), the Act requires the imposition of sanctions with respect to a person who knowingly, on or after August 10, provides



underwriting services or insurance or reinsurance for the National Iranian Oil Company, the National Iranian Tanker Company, or a successor entity to either such company.

Sanctions will not be imposed with respect to a person who provides underwriting services or insurance or reinsurance if the person has exercised due diligence in establishing and enforcing official policies, procedures, and controls to ensure that the person does not provide underwriting services or insurance or reinsurance for the National Iranian Oil Company, the National Iranian Tanker Company, or a successor entity to either such company.

The President is authorized not to impose sanctions with respect to a person if the President receives reliable assurances that the person will terminate the provision of underwriting services or insurance or reinsurance for the National Iranian Oil Company, the National Iranian Tanker Company, and any successor entity to either such company, not later than the date 120 days after the date of the enactment of the Act.

Sanctions will also not be imposed for the provision of underwriting services or insurance or reinsurance for any activity relating solely to

- (i) the provision of agricultural commodities, food, medicine, or medical devices to Iran; or
- (ii) the provision of humanitarian assistance to the people of Iran.

Imposition of sanctions with respect to transactions with persons sanctioned for certain activities relating to terrorism or proliferation of weapons of mass destruction

The Act amends and strengthens existing Iran sanctions law applicable with respect to transactions in this area.

Liability of US Parent companies for violations of sanctions by their foreign subsidiaries

The Act, 60 days after its date of the enactment, requires the President to prohibit an entity owned or controlled by a United States person, and established or maintained outside the United States from, engaging in any transaction directly or indirectly with the Government of Iran or any person subject to the jurisdiction of that Government if that transaction would be prohibited by present US Iran sanctions law if the transaction were engaged in by a United States person or in the United States. The Act requires the extension of civil liability and penalties applicable under existing US sanctions laws to a United States person that owns or controls a foreign entity that violates, attempts to violate, conspires to violate, or causes a violation of existing laws.

However, under the Act, the foregoing sanction will not apply with respect to a transaction described above by an entity owned or controlled by a United States person and established or maintained outside the United States if the United States person divests or terminates its business with the entity not later than the date 180 days after the date of the enactment of the Act.

Required disclosures to the Securities and Exchange Commission relating to sanctionable activities

The Act amends the Securities Exchange Act of 1934 (the “SEC Act”) to require additional disclosures as follows:



Each issuer is required to file an annual or quarterly report under subsection of the SEC Act shall disclose in that report the information required, if, during the period covered by the report, the issuer or any affiliate of the issuer

- (A) knowingly engaged in an activity described in section 5 of the Iran Sanctions Act of 1996;
- (B) knowingly engaged in an activity described in subsection (c)(2) of section 104 of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) or a transaction described in subsection (d)(1) of that section;
- (C) knowingly engaged in an activity described in section 105A (b) (2) of CISADA; or
- (D) knowingly conducted any transaction or dealing with
 - (i) any person the property and interests in property of which are blocked pursuant to Executive Order 13224 (relating to blocking property and prohibiting transactions with persons who commit, threaten to commit, or support terrorism);
 - (ii) any person the property and interests in property of which are blocked pursuant to Executive Order 13382 (relating to blocking of property of weapons of mass destruction proliferators and their supporters); or
 - (iii) any person identified under section 560.304 of title 31, Code of Federal Regulations (relating to the definition of the Government of Iran).

If an issuer or an affiliate of the issuer has engaged in any activity described above, the issuer shall disclose a detailed description of each such activity, including

- (A) the nature and extent of the activity;
- (B) the gross revenues and net profits, if any, attributable to the activity; and
- (C) whether the issuer or the affiliate of the issuer (as the case may be) intends to continue the activity.

If an issuer reports, as described above, that the issuer or an affiliate of the issuer has knowingly engaged in any activity described above, the Act requires the issuer to separately file with the Commission (SEC), concurrently with the annual or quarterly report, a notice that the disclosure of that activity has been included in that annual or quarterly report that identifies the issuer and contains the information required.

Upon receiving a notice that an annual or quarterly report includes a disclosure of an activity described above, the Act requires the Securities and Exchange Commission to

- (A) transmit the report to
 - (i) the President;
 - (ii) the Committee on Foreign Affairs and the Committee on Financial Services of the House of Representatives; and



(iii) the Committee on Foreign Relations and the Committee on Banking, Housing, and Urban Affairs of the Senate; and

(B) make the information provided in the disclosure and the notice available to the public by posting the information on the Internet website of the Commission.

Upon receiving a report that includes a disclosure of an activity required to be disclosed, the Act requires the President to

(A) initiate an investigation into the possible imposition of sanctions under the Iran Sanctions Act of 1996, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, or any other provision of law relating to the imposition of sanctions with respect to Iran, as applicable; and

(B) not later than 180 days after initiating such an investigation, make a determination with respect to whether sanctions should be imposed with respect to the issuer or the affiliate of the issuer (as the case may be).

The new disclosure requirements mentioned above take effect after the date that is 180 days after the date of the enactment of the Act.