

Charterers' Bulletin

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The Standard
for service and security



Standard
Club

Club cover for charterers



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Club cover

The Standard Club has a long history of providing cover to some of the largest charterers in the world as well as to smaller traders and operators, including members supplementing their owned fleet with chartered vessels.

The club provides cover for the protection and indemnity (P&I) liabilities of time, voyage and slot charterers incurred in direct connection with the operation or trading of the vessel. In the case of cargo owners and traders, the club covers liabilities arising in respect of cargo bought and sold by assureds and carried on a ship.

The principal P&I risks are:

- Cargo
- Crew/third party personal injury
- Property damage (fixed and floating objects (FFO))
- Wreck removal
- Collision
- Fines
- Pollution

The cover is provided on a fixed premium basis with a combined single limit for P&I and damage to hull, typically of \$350m any one event, but

limits up to \$1bn can be arranged. If Defence cover is required, the club is able to offer a maximum limit of \$5m. The premium is generally rated by volumes such as per vessel, per gt or per mt of cargo carried and open covers are available with declarations in arrears if required.

Whilst the cover provided is on a fixed premium basis, chartered members receive the same standard of service as owned entries and have access to the same network of correspondents, offices and teams of in-house claims and loss prevention specialists.

Chartering a ship where charterers and traders are parties to contracts related to the ship or voyage inevitably entails certain risks that can lead to legal and contractual liabilities. It is therefore important that charterers take appropriate measures to protect themselves and their balance sheets in the event of these liabilities arising.

The following example incidents outline the potential exposure to a charterer and how The Standard Club cover would respond.

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The club offerings to charterers are as varied as they are flexible. Where required, bespoke covers may be arranged. If you have further queries, please contact the authors or your designated underwriter to discuss.

P&I cover

After striking an uncharted submerged object near the entrance to the port, a chartered ship collides with another ship. The other ship sinks. The port authority orders the removal of the wreck. Following a finding by the arbitration tribunal that the port was unsafe under the terms of the charterparty, the assured is held to be responsible to the owner of its chartered ship for substantial indemnity claims in respect of the owner's exposure to the other ship for wreck removal, pollution liability, crew injury, collision liability, losses to the port, and cargo loss and damage on the other ship.

The member's P&I cover would respond to the charterer's liability to the shipowner for:

- crew injuries on both ships
- costs of the removal of the wreck and the cargo and bunkers inside
- lost and damaged cargo on the other ship and the bunkers on board
- collision liability to the other ship, including costs of repair
- pollution prevention/clean-up costs ordered by the local authorities
- claims by the port authority for loss of use.

Cargo owners' legal liability extension

The member charters a ship for the carriage of oil from California. Shortly after loading, while still in US waters and passing through an environmentally sensitive area, the ship collides with another ship in thick fog. The chartered ship sinks. The submerged ship and its cargo are deemed to be a serious risk to the environment. Even though the owner of the other ship is considered to be most likely liable for the incident, individual states in the US have been able to enact their own legislation in respect of oil pollution and some state laws provide for concepts such as 'transporter of oil' and 'person accepting responsibility for the oil', so that a charterer can be at risk.¹

Cargo owner's legal liability extension cover indemnifies the member for its legal liability to the state authority in respect of measures reasonably taken to prevent an imminent escape of oil from the ship, any clean-up costs and any related legal or other fees.

Charterers' P&I war

The assured voyage charters a ship to load cargo at a port that has suffered from intermittent activity by rebel

terrorist forces. Whilst performing loading operations, terrorists attack the ship. Various crewmembers are killed and injured, and some of their belongings are stolen. The court finds the port to have been unsafe under the terms of the charterparty and holds that the shipowner has a valid claim for indemnity against the assured.

The club's P&I cover excludes liabilities arising out of war and terrorism risks. Charterers' P&I war risk cover, however, would respond to claims for indemnity against the assured in respect of the following:

- repatriation of deceased crew, funeral expenses and compensation to their families in accordance with the governing law and contract
- claims by crew for injury
- reimbursement in respect of loss of crew personal belongings.

Charterers' liability for damage to hull

The assured's time-chartered ship strikes the berth during bad weather as a consequence of there being no tugs available to assist. Significant damage is caused to the ship. The owner arranges for salvage services and declares General Average. The lack of tugs in a port known for its frequent bad weather is deemed by the court to render the port unsafe under the terms of the charterparty for which the assured is held to be responsible.

This cover is wide in scope and is capable of responding to claims for:

- physical damage to or loss of the chartered ship
- salvage, salvage charges and General Average contributions in respect of charterers' bunkers and charterers' freight at risk. Cover can also respond to the ship's contributions in salvage and General Average to the extent the member has a liability for these as charterer
- expenses reasonably incurred in averting/minimising physical damage to/loss of the ship
- demurrage/loss of use/loss of hire/damages for a period during which the use of the ship is lost or performance impaired as a result of physical damage
- surveyors' fees and expenses, legal fees and disbursements, etc.

In this example, the club's cover will respond to protect the assured against the owner's claim for:

- physical damage to the ship
- losses/damage caused following detention/delay to the ship
- salvage costs/General Average contributions in respect of the member's bunkers and freight at risk
- survey, legal and other costs.

The club's damage to hull cover is automatically extended to include war and terrorism risks.

Defence

Defence cover assists charterer members with the costs of legal representation and expert support in relation to certain claims and disputes that are not covered by P&I or any other form of insurance. Examples of the types of dispute that are covered are:

- disputes about the validity of voyage instructions under the charterparty
- disputes about the failure of the charterer to provide cargo
- breach of warranty of description of the ship
- disputes about deviation and delay
- disputes about freight, demurrage and detention
- disputes with port authorities, ship's agents, customs authorities or terminal owners
- disputes about the loading, stowing and discharge of cargo
- disputes under charterparties, contracts of affreightment, bills of lading or other contracts.

Defence claims are by their nature discretionary in that the club must be satisfied as to the merits and quantum of the case and that the expenditure will have a beneficial result. Cover is limited to \$5m per claim.

Our philosophy is simple: to support the reasonable legal costs of a member who has a valid claim, or who is facing an invalid claim. The club also believes that commercial settlements that maintain the working relationship between the parties are usually preferable to court judgments, which can often destroy a relationship. If, however, there is no option other than to litigate or arbitrate then (so long as the merits are favourable and the steps to be taken are proportionate to the quantum and costs involved) so be it.

The Standard Club has more than 50 qualified lawyers and barristers working in house on Defence class claims, spread across London, Piraeus, New York, Singapore and Hong Kong.

¹ For example, the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act was enacted in September 1990 to regulate all aspects of oil spill prevention and response. The Act defines 'responsible party' for the oil spill to include 'the owner or transporter of oil or a person or entity accepting responsibility for the oil': California Government Code § 8670.3(o) (West 1994).