

No. 9 - United States Oil Pollution

November 1997

Dear Sirs

United States Oil Pollution Vessel Response Plans - Contracts for Services

This circular is addressed to all shipowner Members including owners of dry cargo vessels and tankers.

Previous advice to Members on the terms of contract which are required under the Federal regulations on vessel response plans in the United States has concentrated on four issues which are of importance to the Associations, as well as to the Member. These are the scope of indemnities contained in these contracts, provisions for control of the contractor's operations by the owner, provisions for funding of the contractor's invoices and warranties by the contractor that he is competent to perform the contracted service.

In the course of preparation of Members' Vessel Response Plans (VRPs) during 1993, a large number of contracts for various services, particularly of companies acting as qualified individual (QI) and oil spill response organisations (OSROs) were reviewed by the Managers of the Associations/Clubs in the International Group either at the request of individual Members or the contractors themselves. In many cases this review process included a discussion with the contractor concerned on modification of the originally proposed contract terms so as to conform with the general guidelines suggested by the Managers/Clubs. These guidelines are attached as Appendix 1 to this circular.

As a result of this review process many contracts were confirmed (a) to contain an indemnity which could be covered by the Association and (b) generally, in respect of other provisions in the contract, not to conflict with the guidelines suggested by the Managers/Club. It is inevitable that this confirmation has been regarded by contractors and Members alike as approval by the International Group of P&I Clubs.

The present position is that many contractors have made amendments to their contracts and the following comments may be helpful to clarify the significance of approval by the International Group of P&I Clubs in this context.

1. Indemnity Provisions

Approval of the wording of an indemnity provision in the contract is an affirmative statement that the owner's liability to indemnify the contractor pursuant to that clause is covered by the Association under the rule covering liabilities under certain contracts and indemnities, subject, as always, to the owner not being in breach of the Rules or his terms of entry.

Conversely, the absence of confirmation from the Club that the terms of an indemnity have been approved means that Club cover does not fully extend to the liabilities that may be incurred under the indemnity. Such liabilities must either be separately insured or, if not, cover is at the sole discretion of the Directors/Committee in the event of the owner becoming liable for a claim under the indemnity.

Any Member being requested to sign a variation of a contract submitted to and approved by the Association is advised where appropriate to check with the Managers/Club to ensure that such variations do not cause the initial

approval to become invalid.

2. Control of the Contractor's Operations

The Managers/Club continue(s) to suggest that it is important for such contracts clearly to give the owner the right to control the operations of the contractor (rather than allowing the contractor to proceed with the contracted operations at his own discretion and to charge the owner accordingly). Contracts which have been approved by the Managers/Club contain provisions which are considered adequate to give such control to the owner. However, Members should note that some contractors offer more than one service. Members are therefore recommended to ensure that the entities appointed by them to perform the various services named in the VRP remain independent of each other e.g that persons performing the roles of QI/Spill Managers are genuinely independent from OSROs.

The extent to which control can actually be exercised over a contractor may depend upon the circumstances of a particular incident. To the extent that a Member fails in practice to exercise adequate control over a contractor, the Member may still be liable for the costs that are incurred under the contract but will be at risk of failing to make a complete recovery from the Association in respect of those costs to the extent that adequate control has not been exercised.

3. Funding of Contractors' Services

Certain contractors have requirements concerning proof of financial viability to be given either on signing the contract or prior to the contractor performing services. Reliance should not be placed on the Association to provide any form of financial guarantee or evidence of insurance, other than the normal Certificate of Entry for the ship. In particular, some of the contracts which have been approved contain a provision that enables the contractor to request that payment for his services is secured by means of a deposit or a Club letter of guarantee as a condition of continuing to perform. Approval of a contract containing such a term does not constitute a commitment by the Association to provide such a Club letter of undertaking on behalf of the member. As in all cases, the provision of Club security is in the discretion of the Association and agreement to provide such a letter of undertaking and the terms on which it is to be provided can only be determined by the Association concerned in the light of all the circumstances of the incident. In addition to the usual pre-conditions of agreement to provide security the Association will also need to be satisfied that the member is exercising sufficient control over the operations of the contractor so that the costs incurred can form a proper claim on the Association.

4. Contractors' Warranties

In general terms, contracts which have been approved do contain some form of warranty on the part of the contractor that he is legally and professionally competent to perform the contracted service.

However, in no case have/has the Managers/Club been able to verify the legal or technical qualifications of any contractor and approval of the contract in no way constitutes a recommendation that a particular contractor or contract should be used by the Member concerned. In the event that the contractor fails to perform the contracted service, approval of the contract does not constitute a commitment by the Association to cover the Member against the potential consequences of his contractor's failure.

It should also be noted that, although a number of contracts do contain schedules or appendices of rates to be charged by the contractor for his services, in no case do/does the Managers'/Club's approval of the contract extend to agreement that all rates quoted are reasonable.

Whilst under Federal Law Vessel Response Plans are only required from tanker owners, under State law such plans are sometimes required from owners of other vessels. A list of VRP requirements for individual States is attached as Appendix 2. States which are not mentioned on the list do not have separate requirements.

Attached as Appendix 3 is a schedule of those contractors whose contracts have been approved within the terms of the circular. Appendix 4 lists contractors whose contracts have been considered by the International Group but have not been approved.

Yours faithfully

American Steamship Owners Mutual Protection and Indemnity Association Inc
Assuranceforeningen Gard
Assuranceforeningen Skuld
The Britannia Steamship Insurance Association Limited
The Japan Shipowners Mutual Protection and Indemnity Association
Liverpool and London Steamship Protection and Indemnity Association Limited
The London Steamship Owners Mutual Protection and Indemnity Association Limited
The Newcastle Protection and Indemnity Association
The North of England Protection and Indemnity Association Limited
The Shipowners Mutual Protection and Indemnity Association (Luxembourg)
The Standard Steamship Owners Protection and Indemnity Association (Bermuda) Limited
The Steamship Mutual Underwriting Association (Bermuda) Limited
Sveriges Angfartygs Assurans Forening (The Swedish Club)
The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited
The West of England Ship Owners Mutual Insurance Association (Luxembourg)

Appendix 1

Appendix 2

Appendix 3

Appendix 4