

ANDREW LIU & CO LTD

Address: Suit 501, Bank of America Tower

12 Harcourt Road, Central

Hong Kong

Tel: +852 2521 0373

Fax: +852 2521 2715

Email: marketing@andrewliu.com.hk

Website: <http://www.andrewliu.com.hk>

And at Shanghai: +86 21 6323 0825



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Iran Sanctions - Insurance Policy Conditions

All International Group P&I Clubs have included in their Rules the right to terminate or exclude cover in relation to voyages which may breach international sanctions.

Example of a P&I Club sanction clause:

“The Association shall not indemnify an owner any liabilities, costs or expenses where the provision of cover, the payment of any claim or the provision of any benefit in respect of those liabilities, costs or expenses may expose the Association to any sanction, prohibition, restriction, or adverse action by any competent authority or government.”

All Hull insurers have also included in their policy conditions a similar Sanctions Limitation Clause.

Example of a Hull insurers' sanction clause:

“No re (insurer) shall be deemed to provide cover and no re(insurer) shall be liable to pay any claim or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose that re(insurer) to any sanction, prohibition, or restriction under United nations resolution or the trade and economic sanctions, laws or regulations of the European Union, United Kingdom or United States of America.”

The Court Of Appeal case of Arash Shipping v Groupama Transport (2011) concerned an issue whether the Hull insurer Groupama Transport was entitled to cancel the cover relying on the Sanctions clause for the reason the Arash Shipping was related to Iran National Shipping. It was held the hull insurers was entitled to serve a notice cancelling cover as long as it exercised its discretion in good faith and on grounds which could not be challenged for being totally illogical and without reason such that no sensible person would have come to the same opinion. The Court said it was not impossible for hull insurers to have reasonably formed an opinion that continuance of cover would expose to them to risk of insurers being in breach of the sanctions.

To conclude, if it was not unreasonable based on the available information for insurers to form an

opinion they would be exposed to a risk of not complying with the Sanctions, the insurers would be entitled to terminate cover even though it may be later proven that the insurer's decision may have been based on an incorrect assumption or understanding of the circumstances.

It is therefore important that if any vessel decides to trade to Iran, that a detailed investigation is carried out by expert third parties such as lawyers and cargo surveyors to ensure the voyage and shipment is lawful, in order to avoid Hull insurers and P&I Clubs exercising their right to terminate cover. (See our circular no. 2012/003 on Iran practical comments.)

Andrew Liu & Co. Ltd