

Contents

| | |
|--|----|
| Abbreviations | XV |
| Introduction | 1 |
| A. The aim of the research..... | 3 |
| B. The scope of the research..... | 3 |
| C. Methods used for the research | 5 |
| Chapter 1: Pollution from Ships' Bunkers and the Advent of the Bunkers Convention | 7 |
| A. A brief history of the development of the oil spill civil liability system..... | 7 |
| I. TOVALOP and CRISTAL..... | 8 |
| II. International Conventions | 10 |
| B. The need for the Bunkers Convention | 13 |
| I. The scope of earlier conventions | 13 |
| II. National legislation and the background work on the Bunkers Convention..... | 14 |
| III. Risk and technical considerations | 18 |
| IV. The birth of the Bunkers Convention..... | 20 |
| C. Overview of the Bunkers Convention..... | 20 |
| I. Categories of ships | 20 |
| 1. "Ship" | 20 |
| 2. Does the Bunkers Convention apply to oil tankers? | 20 |
| 3. "Warships" | 21 |
| II. "Oil" | 22 |
| III. Scope of application | 23 |
| IV. Liability established by the Bunkers Convention | 26 |
| 1. Liable parties | 26 |
| 2. Channelling of liability..... | 27 |
| 3. Shipowners' liability is joint and several | 29 |
| 4. The basis of liability and exonerating circumstances..... | 30 |
| 5. Limitation of Liability | 32 |
| V. Compulsory insurance and direct recourse | 33 |
| 1. Three prerequisite factors | 34 |
| a) "Registered owner of a ship" | 34 |
| b) "Gross tonnage" – insurance threshold..... | 35 |

| | |
|--|--------|
| c) "In an amount equal to the limits of liability..." – amount of limitation..... | 38 |
| 2. Insurance certificate and its recognition | 39 |
| 3. Direct action against the insurer | 40 |
| 4. Time limit for bringing an action..... | 41 |
| VII. Jurisdiction, recognition and enforcement | 42 |
| VIII. Other matters..... | 44 |
| VIII. Adopted resolutions | 45 |
| D. Concluding remarks | 47 |
| Chapter 2: The Birth of Compulsory Insurance for Oil Pollution Liability..... | 49 |
| A. Introduction..... | 49 |
| B. The concept of compulsory insurance..... | 50 |
| I. Development of the concept of compulsory insurance..... | 50 |
| II. The system of insurance | 52 |
| 1. Compulsory insurance as defined in international civil liability conventions | 52 |
| 2. Insurance or other financial securities | 53 |
| III. The need for compulsory insurance for bunker-oil pollution liability | 53 |
| C. Possible insurers..... | 55 |
| I. The types of marine insurance and their coverage | 55 |
| 1. Cargo insurance and its coverage | 56 |
| 2. Hull insurance and its coverage | 57 |
| 3. Freight insurance and its coverage..... | 59 |
| 4. Protection and Indemnity Insurance | 59 |
| a) Brief introduction..... | 59 |
| b) The main risks covered by the P&I Club | 60 |
| c) Insurance contract between the shipowner and the Club..... | 62 |
| d) The International Group of P&I Clubs..... | 64 |
| II. The insurers offering coverage for oil-pollution liability | 65 |
| 1. The P&I Clubs..... | 65 |
| a) Pollution liability clause..... | 66 |
| b) Limitation of liability terms | 67 |
| c) The role of the P&I Club with regard to an oil-pollution incident | 68 |
| aa) Oil-pollution liability insurer | 68 |
| bb) Measures for an oil-pollution incident taken by the Clubs | 69 |
| (1) Clean-up or salvage operation..... | 69 |
| (2) Source of funding | 70 |
| (3) Providing legal advice..... | 70 |
| d) Interaction with other international organisations..... | 71 |

| | |
|--|-----------|
| aa) The legal framework of the IMO conventions | 71 |
| bb) Cooperation with the IOPC Fund..... | 72 |
| cc) Technical assistance from the ITOPF..... | 72 |
| 2. Other insurers offering OPA insurance..... | 73 |
| a) Financial responsibility requirement in the OPA 90 | 74 |
| b) The concerns of the P&I Clubs to be the guarantors | 76 |
| c) Some alternative ways of meeting financial responsibility requirements | 77 |
| D. Concluding remarks | 79 |
| Chapter 3: Strict Liability and Insurance..... | 81 |
| A. Introduction..... | 81 |
| B. The basis of liability in the Bunkers Convention | 82 |
| I. The difficulties in applying the common law of torts..... | 82 |
| 1. Trespass | 83 |
| 2. Nuisance | 83 |
| 3. Negligence | 84 |
| II. Fault-based liability leads to unfair results for pollution victims | 86 |
| III. Strict liability and its application..... | 88 |
| C. The main reasons for introducing strict liability | 90 |
| I. Ensuring protection of and compensation for victims | 90 |
| II. The impact on the industry | 91 |
| 1. The industry bears the cost of pollution damage | 91 |
| 2. Incentive to improve prevention of marine pollution | 92 |
| D. Distribution of liability and exceptions to liability..... | 93 |
| I. Who shall be liable? | 93 |
| 1. Provisions in the CLCs | 94 |
| a) Liability of the cargo interest | 94 |
| b) Liability of the ship | 95 |
| c) The second-tier liability of the cargo-owner | 96 |
| 2. Liability rule under the Bunkers Convention..... | 97 |
| II. Exceptions to liability | 97 |
| 1. Types of exceptions in general | 98 |
| 2. Exceptions available to the shipowner in the Bunkers Convention..... | 99 |
| III. Channelling of liability | 103 |
| E. Implementation of liability: insurance | 105 |
| I. Proposals during the preparatory work of the Convention | 105 |
| II. Two alternative means..... | 107 |
| 1. Separate insurance policies..... | 107 |
| 2. Co-assurance under one policy | 108 |
| F. Concluding remarks | 109 |

| | |
|--|-----|
| Chapter 4: Insurance and the Quest for Adequate Compensation | 111 |
| A. Introduction..... | 111 |
| B. Certification of insurance..... | 111 |
| I. Basic requirements in the Bunkers Convention..... | 111 |
| II. Administrative burden corollary to the issuance of the certificate..... | 112 |
| 1. The administrative burden of the flag States..... | 113 |
| 2. Port State control regarding the certificate..... | 118 |
| III. Electronic means for the certificate | 118 |
| IV. The validity of the certificate..... | 119 |
| C. Availability and capacity of insurance for bunker-oil spill liability | 121 |
| D. Other related issues | 123 |
| I. “Polluter pays” principle..... | 123 |
| II. The significance of Art. 7(8) and financial standing of providers of insurance or financial security | 125 |
| III. Mutuality | 128 |
| 1. The meaning of mutuality | 128 |
| 2. Role of mutuality..... | 129 |
| a) The ability to absorb large claims | 129 |
| b) Possible motivation for risk minimisation..... | 130 |
| E. Liability insurance and compensation fund..... | 131 |
| F. Adequacy and other types of compensation | 132 |
| I. The willingness of P&I Clubs to increase their coverage limit | 133 |
| II. The compensation paid by the cargo interests | 134 |
| III. Compensation paid by other jointly liable persons..... | 136 |
| 1. “Joint and several liability” rule in relation to the compensation purpose | 136 |
| 2. Bareboat charterer | 137 |
| a) “Demise charterer” or “bareboat charterer”? | 137 |
| b) The insurance of the bareboat charterer | 137 |
| IV. Operator and manager..... | 139 |
| V. Liability as the time or voyage charterer | 140 |
| 1. Definitions | 140 |
| 2. Compensation paid by the time or voyage charterer..... | 140 |
| VI. State liability and contributions | 141 |
| G. Concluding remarks | 143 |
| Chapter 5: Limitation of Liability and the Limit of Insurance | 145 |
| A. Introduction..... | 145 |
| B. The global limitation of liability system in relation to ships | 146 |
| I. Limitation of liability rule in general..... | 146 |
| II. The 1957 Convention, 1976 LLMC and its 1996 Protocol relating to tanker-oil pollution liability | 150 |

| | |
|--|-----|
| C. Limitation rules in the Bunkers Convention..... | 152 |
| I. Pollution damage eligible for limitation | 153 |
| 1. Pollution damage arising from a bunker-oil spill..... | 153 |
| 2. The claims subject to limitation under the 1976 LLMC and its Protocol | 154 |
| II. The amount of the funds available under the LLMCs | 157 |
| III. Other aspects relevant to claims for bunker-oil spill liability under the 1976 LLMC and its Protocol | 159 |
| 1. Conduct barring the right to limit..... | 159 |
| 2. Constitution and distribution of the limitation fund..... | 160 |
| D. The right to limit liability..... | 161 |
| I. The reasons for maintaining the right to limit..... | 161 |
| II. Unsatisfactory outcome of the limitation regime..... | 162 |
| E. The relation of limitation of liability and insurance | 164 |
| I. The insurability and limitation of liability | 164 |
| II. The possibility to have a unlimited liability..... | 166 |
| F. Concluding remarks | 169 |
| Chapter 6: Direct Action against the Insurer and its Limited Effect | 171 |
| A. Introduction | 171 |
| B. Rights of a third party to claim on the insurance policy..... | 172 |
| I. Assignment..... | 172 |
| II. Direct-action statutes..... | 174 |
| 1. English law | 175 |
| 2. United States legislation | 177 |
| C. The limited effect of direct action under P&I insurance | 178 |
| I. Coverage and exclusions of P&I insurance | 179 |
| II. P&I insurance is one of indemnity..... | 179 |
| III. “Pay to be paid” rule | 181 |
| IV. Other defences of a Club against the claim from a third party | 182 |
| D. Direct-action right under the Bunkers Convention..... | 182 |
| I. “the defences ... which the shipowner would have been entitled to invoke” | 184 |
| II. Meaning of the phrase “wilful misconduct of the shipowner” | 185 |
| 1. Interpretation of “wilful misconduct” in relation to limitation of liability..... | 185 |
| 2. Interpretation of “wilful misconduct” in insurance law | 188 |
| a) The determination of a competent court..... | 188 |
| b) “Wilful misconduct” in P&I insurance..... | 188 |
| 3. “Wilful misconduct” in Article 7(10)..... | 189 |
| E. Scope of the claim: pollution damage..... | 190 |
| I. The uncertain nature of liability for pollution..... | 190 |
| II. “Pollution damage” in tanker-oil spill incidents | 191 |
| 1. CMI guidelines on oil-pollution damage..... | 192 |

| | |
|--|------------|
| 2. The policy adopted by the IOPC Fund..... | 193 |
| 3. Viewpoint of the P&I Clubs..... | 195 |
| III. Pollution damage under the Bunkers Convention | 195 |
| F. Recourse action..... | 196 |
| G. Concluding remarks..... | 198 |
| Chapter 7: Outlook on Insurance and Compensation for Bunker-Oil Pollution Liability | 199 |
| A. Introduction..... | 199 |
| B. Main interests in the insurance system | 200 |
| I. Victims: "Loss of cover" and full compensation..... | 200 |
| 1. Loss of cover | 200 |
| 2. "Small ship" issue | 201 |
| 3. Adequate compensation | 201 |
| II. The P&I Clubs: maintaining their sustainable development | 203 |
| III. Shipowners: the central actor..... | 203 |
| C. The comparison of the insurer's exposure to the CLCs and the Convention..... | 204 |
| I. The types of ships involved | 205 |
| II. The number of ships involved..... | 205 |
| III. The limitation of liability | 205 |
| D. Concluding remarks..... | 206 |
| Summary of Study..... | 209 |
| A. The concept of compulsory insurance and its compensation purpose..... | 211 |
| B. Other features of the Bunkers Convention and their interrelations with compulsory insurance | 213 |
| Bibliography | 215 |
| Literature | 215 |
| Documents | 223 |
| Appendix: Text of the Bunkers Convention | 227 |
| Index | 239 |