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Dear Friends:

Limits on oil spill liabilities first imposed by the Oil Pollution Act recently increased after a bipartisan effort in Congress. Vessel owners and operators who were only minimally insured before the new limits took effect should examine their coverage closely (p1-2).

On page 3, learn more about Ocean Marine's Marine Employer Liability policy, which for years has provided specialized contingency coverage for non-marine personnel.

And on page 4, read about Russia, its favorable growth prospects and its unfavorable position on various issues.

We hope you enjoy this issue and welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

Oil Spill Liabilities Rise Dramatically

Long-awaited increases higher than many expected

Almost two years after Congress first proposed increases to limits of liability imposed by the Oil Pollution Act of 1990 (OPA), the bipartisan effort recently achieved its objective when President Bush signed the measures into law. Despite the long process, however, some industry observers were caught off guard by just how high the limits rose.

Passed after the 1989 Exxon *Valdez* spill, the OPA imposed stiffer liabilities on responsible parties but also contained limits, with the condition that the president could adjust limits upward every three years based on increases in the Consumer Price Index. Until recently, such an adjustment had never occurred (see *Global Impact*, 2Q 2005). Last year, a bill in the House, the Delaware River Protection Act (DRPA), proposed higher limits on liabilities that were later adopted and amended as part of the Coast Guard and Maritime Transportation Act of 2006, which became law in July.

Limits More Than Doubled

The new limits are highest for single-hull tank vessels, making them much more expensive to operate and, in effect, providing an incentive to accelerate the industry phase-out of those vessels in favor of double-hull tankers. (OPA requires all tank vessels over 5,000 gross tons operating in U.S. waters to have double hulls by 2015.) Effective October 9 of this year, single-hull tank vessels over 3,000 gross tons face amended limits of liability of $3,000 per gross ton or $22 million, whichever is greater. That's up from original OPA limits of $1,200 per gross ton or $10 million.

By comparison, limits for double-hull tank vessels over 3,000 gross tons increased to $1,900 per gross ton or $16 million, whichever is greater. For non-tank vessels, the new liability limits—increasing to $950 per gross ton or $800,000, whichever is greater—took effect on July 11. (For more on amended limits, see www.uscg.mil/npfc.).

For both single- and double-hull tank vessels, the new limits exceed the maximum proposed by the original DRPA bill last year, which sought to phase-in higher limits over two years. In addition, the new law reiterates the OPA provisions for limit adjustments every three years to reflect increases in inflation. Whether or not the provisions will be honored this time, however, remains to be seen.

For vessels required to have a Certificate of Financial Responsibility, existing

Continued on page 2

COFRs will remain in effect until federal financial responsibility regulations are amended, the Coast Guard says. However, given that potential liabilities have risen significantly, owners and operators who were only minimally insured before the new liability limits took effect should seek increases in coverage.

Trust Fund Still in Trouble?

Higher liability limits have helped alleviate some concerns about the solvency of the Oil Spill Liability Trust Fund, which provides resources for federal response and compensation for cleanup costs when responsible parties don't pay. Originally created by the OPA, the Trust Fund collected most of its revenue from a tax on imported oil that was discontinued in 1994. During congressional hearings last year, many lawmakers feared the dwindling coffers would be unable to pay for the cleanup of the next great disaster. The Coast Guard even suggested the Fund might be exhausted as early as 2009.

Although no one can predict when the next major oil spill will occur or how expensive the cleanup will be, one thing is sure: Owners of tank and non-tank vessels involved in a pollution incident can now count on paying a larger portion of the cost.

By last summer, however, Congress reimposed the 5-cent-per-barrel tax effective April 1, 2006, through the end of 2014. The tax applies to crude oil received at a U.S. refinery and to petroleum products shipped into the U.S. for consumption, use or warehousing. It also applies to domestic crude oil used in, or exported from, the United States. As of July, the balance in the Trust Fund was $659 million, and the Coast Guard has estimated that it will take in an additional $130 million in fiscal year 2006 and $217 million in 2007. But the Fund isn't out of the woods yet.

Congressional and Coast Guard officials cite threats to the Trust Fund that include potential claims following the 2004 spill from the *Athos I* on the Delaware River near Paulsboro, N.J. That incident occurred when the ship struck a submerged iron pump housing, although investigations failed to determine who was responsible for dumping the object and obstructing the waterway.

In March of last year, the owner of the *Athos*, who had already spent millions over the vessel's limit of liability, petitioned for reimbursement claiming the spill was entirely the fault of the unknown party. Although most claims related to the *Athos* spill have yet to be adjudicated, total Trust Fund liabilities could exceed $250 million.

Effects of Katrina Linger

Another concern are possible claims related to the more than 9 million gallons of oil spilled by Hurricanes Katrina and Rita last year. Although federal disaster relief funds were available for immediate environmental cleanup efforts, many responsible parties may claim part or all of their costs and damages from the Trust Fund by claiming either a limit to liability or a total immunity from liability using the "Act of God" defense included in the OPA. The Coast Guard has estimated that costs for oil spills related to the hurricanes could exceed $800 million.

"I am concerned about the effect that recent events may have on the long-term health of the Fund," said Rep. Frank LoBiondo, chairman of the Coast Guard and Maritime Transportation Subcommittee, during April hearings on the matter.

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Great American's Marine Employer Liability Coverage Offers Extra Protection

Did you know that Great American's Marine Employer Liability (MEL) policy is one of the oldest and most respected of its kind, providing contingency coverage for non-marine personnel working aboard non-owned vessels or in other maritime environments?

For approximately 30 years, the policy has been a necessary business prerequisite for many vendors and subcontractors required to show evidence of coverage for employees considered eligible under the Jones Act, which includes a federal maritime workers' compensation provision.

Great American does write true Jones Act coverage as part of its P&I products, but the MEL policy is a different breed of contingency coverage originally designed with one industry in mind, explained Russ Trainor, a senior Ocean Marine underwriter in Great American's Ocean Marine East Regional Office in Schaumburg, Ill.

Gulf Coast Beginnings

The policy type had its beginning about 30 years ago, when oil companies in the Gulf Coast region started to demand that non-maritime vendors, as part of their contract, have evidence of Jones Act coverage regardless of the work being performed, Trainor said. Today, for example, an oil company may hire non-marine shipyard personnel, like those from a marine electronics repair and service company, and wish to ensure they are not exposed to potential Jones Act liability. As a result, the oil company may require the electronics firm, which does not own any vessels, to provide evidence of Jones Act coverage. In turn, Great Americans' MEL policy may provide the best solution. "It enables companies to protect themselves in an increasingly litigious society," said Trainor.

"I've been writing this product for approximately 30 years," Trainor said, "and now it's on Great American paper. You can't do better than that."

For the insured, the policy first acts as an investigation mechanism to analyze a claim for true Jones Act eligibility, then provides a defense mechanism in the event of a serious claim. Ultimately, if necessary, it provides reimbursement for sustained losses. Because the policy is not complicated to write, the insured usually can obtain evidence of coverage quickly—often a necessity when a vendor accepts a job on short notice.

Employer liability products were first created around the same time three decades ago in Houston by a now-defunct insurance company and the ocean marine department of a second insurer. Trainor worked with this second insurer and the product as an underwriter until its ocean marine business was acquired by Great American 14 years ago. At that time he and several other underwriters moved to Great American.

Backed by GAIC

The time-tested Marine Employer Liability coverage moved with them. Today, almost all of Great American's policies of this type are still sold in the Gulf Coast region, primarily Texas and Louisiana. Although many other providers have entered the field over the years, Great American's Ocean Marine product stands in stark contrast to many offerings by companies without a strong financial foundation.

"I've been writing this product for approximately 30 years," Trainor said, "and now it's on Great American paper. You can't do better than that." ■

Russian Economy Projected To Become 6th Largest

But Major Obstacles Remain

Since the Russian financial crisis of the late 1990s, the Russian economy has continued to expand, sustaining annual gross domestic product growth rates of 6-7 percent in recent years. In turn, real personal income has jumped 12 percent annually from 2000-2005, while the Russian middle class has grown, according to Central Intelligence Agency information.

As a result of this and other factors, the Russian economy is expected to became the world's 12th largest in 2006. And if Goldman Sachs' estimates pan out, it could become the world's sixth largest by 2050, surpassing Italy by 2018, France by 2024, the U.K. by 2027, and Germany by 2028.

Thanks, in part, to strong global demand for high-priced oil and natural gas, Russian exports of both goods and services are anticipated to reach $372 billion in 2007; imports are projected at $259 billion, according to the Organisation for Economic Cooperation and Development.

In addition to running a global trade surplus, the Russian Federation also runs a trade surplus with the United States. Thus, from 2004 through 2005, U.S. merchandise exports to Russia rose 33.1 percent to reach $3.9 billion. Although U.S. merchandise imports increased at a slower pace, they still amounted to $15.3 billion, resulting in a U.S. trade deficit of $11.3 billion.

Major Problems Persist

The shift from a centrally planned communist system to a market based capitalist economy continues. Nevertheless, problems remain. For example, in order to better integrate into the global economy, in 1993 Russia applied for World Trade Organization (WTO) membership. This request, however, continues to be rejected for a number of reasons. For example, Russian pirating of American movies, music recordings, DVDs and business software programs continues. In fact, Russian firms now account for the vast majority of intellectual property losses suffered by U.S. producers.

In December 2004, Rosneft, Russia's state-owned oil company, bought the giant private firm Yukos at what amounted to fire-sale prices during a forced government auction. Yukos' U.S. shareholders, short-changed by the maneuver, promptly filed suit. In the meantime, former Yukos CEO Mikhail Khordokovsky withers in a Siberian prison camp, his rights to a fair judicial process trampled.

As a result of these and numerous other factors, many business leaders have urged the U.S. to deny Russia WTO accession until the country offers greater assurances it will abide by global trading rules and implements greater democratic reform. Interestingly, these conditions will support — rather than hinder — sustainable long-term economic growth. ■

The descriptions of coverages provided under the Marine Employer Liability Policy are summarized due to space limitations. Please refer to the policy form and declarations page for a complete description of all applicable terms, conditions, exclusions and limits. Not all coverages are available in every state. Policies are underwritten by Great American Insurance Company, Great American Alliance Insurance Company or Great American Insurance Company of New York. Copyright © 2006 by Great American Insurance Company. All rights reserved. The following service marks are the property of Great American Insurance Company: Great American® and Great American Insurance Group®.

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