



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1992

ASSEMBLY
5th session
Agenda item 27

92FUND/A.5/23
31 August 2000
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WORKING CAPITAL

Note by the Director

Summary:	The Director proposes increasing the working capital from £15 million to £20 million.
Action to be taken:	Decide the level of the working capital.

1 Introduction

- 1.1 The 1992 Fund's Financial Regulations provide that a working capital shall be maintained at such a level as the Assembly may decide from time to time (Financial Regulation 7.1(b)).
- 1.2 Under Financial Regulation 7.1(c), the 1992 Fund shall have a General Fund which shall be used:
 - (i) for the satisfaction of claims of the kind referred to in Article 12.1(i)(b) of the 1992 Fund Convention including the first four million SDR of claims in respect of any one incident where the aggregate amount of all claims exceeds four million SDR;
 - (ii) to make provisional payments pursuant to Internal Regulation 7.9;
 - (iii) to meet the costs and expenses of the administration of the 1992 Fund and any other expenditure which may be authorised by the Assembly or, where appropriate, by a subsidiary body established by the Assembly in accordance with Article 18.9 of the 1992 Fund Convention;

(iv) to make loans to a Major Claims Fund for the satisfaction of claims of the kind referred to in Article 12.1(i)(c) of the 1992 Fund Convention, above the first four million SDR in respect of any one incident, to the extent that sufficient money is not available in that Major Claims Fund.

1.3 Separate major claims funds shall be established in respect of each larger incident, ie each incident where the aggregate amount of the payments by the 1992 Fund exceeds 4 million SDR (approximately £3.3 million). Such a major claims fund shall be used for the payment of claims arising from the relevant incident, provided that the first 4 million SDR in respect of each incident is to be paid from the General Fund (Financial Regulation 7.2(a) and (d)).

2 Decisions in recent years regarding the working capital

In recent years the Assembly has taken the following decisions in respect of the working capital:

Assembly session	Working capital changed		Document	Paragraph
	From:	To:		
1st extraordinary		£7 million	92FUND/A/ES.1/22	18
2nd	£7 million	£9 million	92FUND/A.2/29	26
3rd	£9 million	£12 million	92FUND/A.3/27	24
4th	£12 million	£15 million	92FUND/A.4/32	28

3 Director's analysis

3.1 The working capital should be available to meet claims in respect of smaller incidents and the necessary administrative expenses of the 1992 Fund and to make loans to major claims funds, as required. If the working capital were to fall below an amount reasonably required to meet the administrative expenses and anticipated claims, annual contributions should be raised to restore the working capital to the level fixed by the Assembly.

3.2 Under Internal Regulation 7.4, the Director may make final settlement of any claim for compensation without the prior approval of the Assembly if he estimates that the total cost to the 1992 Fund of satisfying all such claims arising out of the relevant incident is not likely to exceed 2.5 million SDR (approximately £2.2 million). The Director may in any case make final settlement of claims from individuals and small businesses up to an aggregate amount of 666 667 SDR (approximately £583 770) in respect of each incident. The Assembly may authorise the Director to settle claims beyond this limit in respect of a particular incident (Internal Regulation 7.5).

3.3 At the time of the 5th session of the Assembly, 46 States will be Members of the 1992 Fund. During the following 12 months, the 1992 Fund Convention will enter into force for at least a further 14 States. It is expected that in the next few years a considerable number of other States will join the 1992 Fund. The larger the number of Member States, the greater the risk that the 1992 Fund will be called upon to pay compensation for oil pollution incidents.

3.4 There is a considerable element of uncertainty in the estimates that form the basis of the Assembly's decision to levy contributions. This is due partly to the comparatively long period of time involved. The estimates are normally made in August, and are reviewed immediately before the session of the Assembly. The decision to levy contributions is usually taken by the Assembly

in October, say in October 2000, and the contributions would then be due by 1 March 2001. No further contributions would normally be levied until the Assembly fixed the 2001 contributions in October 2001, for payment by 1 March 2002. Although the Assembly decided at its 4th extraordinary session, held in April 2000, to make a supplementary levy of contributions in respect of a major incident which had occurred after the Assembly's decision in October 1999, the Director considers that such a supplementary levy should normally be avoided.

- 3.5 At its 1st session the Assembly introduced a deferred invoicing system. Under this system the Assembly fixes the total amount to be levied in annual contributions for a given calendar year. At the same time, the Assembly may decide that only a specific lower total amount should be invoiced for payment by 1 March in the following year, the remaining amount, or a part thereof to be invoiced later in the year if it should prove to be necessary (document 92FUND/A.1/34, paragraph 16.2). It was stressed by a number of delegations that the introduction of a deferred invoicing system should not be applied in such a way that the 1992 Fund would not have sufficient funds for the prompt payment of claims for compensation (document 92FUND/A.1/34, paragraph 16.4). The system nevertheless allows greater flexibility in the levying of contributions, particularly with regard to the level of the working capital.
- 3.6 The Director considers that the prompt payment of compensation is of crucial importance. The 1992 Fund should, in the Director's view, hold sufficient liquid funds to enable it to pay claims without having to wait for the next payment of contributions. In addition, the Director considers that the working capital should be sufficiently large so that bank loans are not required for the prompt payment of accepted claims, at least not in normal circumstances.
- 3.7 In recent years there have been several incidents involving the 1971 Fund in which there was no P & I insurer who could make payments promptly to individual claimants and small businesses. In such cases involving the 1992 Fund, it will be imperative that the 1992 Fund is in a position to act promptly in order to mitigate undue financial hardship to victims. This is particularly important in respect of individuals and small businesses and generally in respect of victims in developing countries. It should also be recalled that, as a consequence of the wider definition of 'ship' in the 1992 Fund Convention, the 1992 Fund may be called upon to pay compensation in cases where it is not possible to identify the owner of the tanker which caused a spill; reference is made to the oil spill which occurred in the North Sea in June 1996 (1999 Annual Report, page 109).

4 Director's proposal

In the light of experience gained by the 1971 Fund over the years, it would appear that the 1992 Fund will in the long run need a sizeable working capital in order to ensure prompt payments. The Director is of the view that the 1992 Fund should hold sufficient liquid funds to enable it to pay claims during 2001 without having to wait for the receipt of contributions in March 2002. The Director is nevertheless aware of the importance of limiting the financial burden on contributors. In his view, the working capital of the 1992 Fund should continue to be built up in stages. For this reason, he proposes that the working capital be increased from £15 million to £20 million.

5 Action to be taken by the Assembly

The Assembly is invited to consider the Director's proposal to increase the working capital of the 1992 Fund from £15 million to £20 million.
