



## INCIDENTS INVOLVING THE 1971 FUND

### PONTOON 300

#### Note by the Director

**Summary:**

Apart from a number of claims submitted by a Municipality and a claim by the Ministry of Agriculture and Fisheries, all of which are the subject of legal proceedings in the Umm Al Qwain Court of first instance, all other claims have been settled and 75% of the settlement amounts have been paid. The 1971 Fund has maintained that the claims by the Municipality have become time-barred and that some of the claims are inadmissible. The Court appointed three experts to examine these claims. The Fund has participated in a number of meetings with the court experts and the other parties with the aim of reaching agreement on the quantum of the losses, without prejudice to the issue of time bar in respect of the claim by the Municipality. As a result of these meetings, an agreement in principle has been reached on the claim by the Ministry of Agriculture and Fisheries, and since this claim is not time-barred, it is expected that this claim will be settled in the near future.

The 1971 Fund has succeeded in its recourse action against the owner of the tug *Falcon 1*, which was towing the *Pontoon 300* when the incident occurred. The Court of Cassation held that the tug owner was liable to pay compensation to the Fund.

A meeting was held between the owner of the tug and the Director in London. The tug owner requested the Fund to give him time to try and reach a settlement of the claim submitted by the Municipality. Although the tug owner has reached a settlement with the Municipality, the legal action against the 1971 Fund has not yet been withdrawn.

**Action to be taken:**

To increase the level of payments from 75% to 100% and to authorise the Director to pay the outstanding 25% of all settled claims if the legal action commenced by the Umm Al Qwain Municipality against the Fund is withdrawn.

### 1 The incident

On 7 January 1998 the Saint Vincent and Grenadines barge *Pontoon 300* (4 233 GRT), which was being towed by the tug *Falcon 1*, sank in a depth of 21 metres off Hamriyah, in Sharjah, United Arab Emirates (UAE). An estimated 8 000 tonnes of intermediate fuel oil were spilled, which spread over 40 kilometres of coastline, affecting four Emirates. The worst affected Emirate was Umm Al Quwain.

## **2 Claims for compensation**

- 2.1 Claims totalling Dhs 7.4 million (£1.1 million) in respect of clean-up operations and preventive measures have been settled for a total of Dhs 6.3 million (£958 000). The 1971 Fund has paid a total of Dhs 4.8 million (£817 000), corresponding to 75% of the settlement amounts.
- 2.2 The Municipality of Umm Al Quwain presented claims against the 1971 Fund totalling Dhs 199 million (£28.7 million) on behalf of fishermen, tourist hotel owners, private property owners, a Marine Resource Research Centre (MRRC) and the Municipality itself (see table overleaf). Little or no documentation was provided in support of the claims, and the amounts involved appeared to be based upon estimates. The main claim by the Municipality was for environmental damage related to alleged losses of fish stocks and other marine resources, including mangroves. The estimation of the damage appeared to be based upon theoretical models.
- 2.3 The 1971 Fund informed the Umm Al Quwain Municipality that claims in respect of property damage and economic losses actually sustained were admissible in principle but that considerable supporting documentation was required before the Fund could assess the claims. The 1971 Fund also pointed out that claims for environmental damage based upon theoretical models were not admissible.

## **3 Legal actions relating to claims**

- 3.1 In September 2000 the Umm Al Quwain Municipality brought legal action in the Umm Al Quwain Court against the tug owner and the owner of the cargo on board the *Pontoon 300* in respect of its claims. The 1971 Fund was not joined as a defendant in the proceedings, nor was it formally notified of the proceedings. However, the plaintiffs requested the Court to notify the 1971 Fund of the action through diplomatic channels in accordance with Article 7.6 of the 1971 Fund Convention and through the Ministry of Justice in accordance with United Arab Emirates law of Civil Procedure.
- 3.2 Claims against the 1971 Fund became time-barred on or around 8 January 2001 at which point the Umm Al Quwain Municipality had not taken the measures laid down in the 1971 Fund Convention to prevent the claims becoming time-barred. In the proceedings, the 1971 Fund therefore maintained that the claims submitted by the Municipality were time-barred.
- 3.3 In December 2000 the Ministry of Agriculture and Fisheries in Umm Al Quwain joined the Umm Al Quwain Municipality's action as a co-plaintiff, claiming Dhs 6.4 million (£920 000), which corresponded to the claim by the MRRC included in the Municipality's claim. However, the Ministry also joined the 1971 Fund as a co-defendant in its action. Although the action had not been served on the 1971 Fund, the Administrative Council decided that this claim was not time-barred, since the Fund had been brought in as a defendant in the action before the expiry of the three-year time-bar period.
- 3.4 In December 2001 the Umm Al Quwain Court issued a preliminary judgement in which it decided to refer the matter to a panel of experts experienced in oil pollution and the environment, to be appointed by the UAE Ministry of Justice. The Court further decided to combine all the pleadings relating to issues of jurisdiction and time bar and to review these after the experts had submitted their report.
- 3.5 The experts submitted their report to the Umm Al Quwain Court of first instance in February 2003. The pending claims and the Court experts' assessment of the claims are summarised in the table overleaf:

Claim	Claimed amount (Dhs)	Assessed amount (Dhs)
Fishing		
- Loss of income	10 008 840	1 137 048
- Property damage	306 593	123 429
Tourism	765 389	122 570
Property damage	7 000 000	0
Marine Resource Research Centre	6 352 660	335 000
Environmental damage		
- Marine organisms	130 294 415	0
- Mangroves	24 280 000	1 500 000
Clean-up	19 744 600	0
<b>Total</b>	<b>Dhs 198 752 497</b> <b>(£28.7 million)</b>	<b>Dhs 3 218 047</b> <b>(£465 000)</b>

- 3.6 The 1971 Fund submitted to the Court its comments on the experts' report stating that, notwithstanding the Fund's position that the claims were time-barred, the assessments of the claims by the panel of experts was generally in line with the 1971 Fund's policy as regards the admissibility of claims for compensation.
- 3.7 The Umm Al Quwain Municipality and the Ministry of Agriculture and Fisheries objected to the experts' assessments of their losses and requested that the Court should refer the matter back to the experts with the instruction to reassess the claims in the light of their comments.
- 3.8 The owner of the tug *Falcon I* submitted pleadings maintaining that the experts had failed to assess the claims in an objective manner. He stated that the report had been issued contrary to local law and jurisprudence and contained contradictions as regards facts and conclusions. He also stated that the report was faulty and incomplete and requested the Court to set aside the entire report. In October 2003 the Court decided to refer the case back to the experts for them to respond to the objections raised by the various parties.
- 3.9 The Fund has held a number of meetings with the experts and the other parties with the aim of reaching agreement on the quantum of the losses, without prejudice to the issue of time bar in respect of the claims by the Umm Al Quwain Municipality. As a result of these meetings an agreement in principle was reached on the claim by the Ministry of Agriculture and Fisheries in respect of the MRRC at Dhs 1.6 million (£230 000), which is not time-barred. The Ministry of Agriculture and Fisheries have requested the Fund to pay the agreed amount to the UAE Ministry of Environment and Water.
- 3.10 Despite numerous attempts by the Fund's lawyers to finalise a settlement agreement with the Ministry of Environment and Water, the claim by the MRRC has not been settled. The Fund is still waiting for the Ministry of Environment and Water to agree to the receipt and release document prepared by the Fund before this claim can be settled.

#### **4 Criminal action against the master of the tug *Falcon I***

- 4.1 In November 1999 a Criminal Court of first instance found the master of the tug *Falcon I*, the alleged cargo owner, the general manager of the tug owner and the general manager of the alleged cargo owner guilty of misuse of the barge *Pontoon 300*, which was not in a seaworthy condition and thus in violation of United Arab Emirates law, and of causing harm to the people and the environment by use of the unseaworthy barge. The master of the tug *Falcon I*, the tug owner and his general manager appealed against the judgement, but the alleged cargo owner and his general manager did not.

- 4.2 In February 2000 the Criminal Court of Appeal found the tug owner and his general manager not guilty. The Court of Appeal confirmed the guilty verdict against the master of the *Falcon 1*, the alleged cargo owner and his general manager. The master of the tug *Falcon 1* lodged an appeal in the Federal Court of Cassation, which sent the case back to the Court of Appeal to consider the issues of the seaworthiness of the *Pontoon 300* and the master's defence of 'force majeure'.
- 4.3 In May 2004 the Criminal Court of Appeal re-opened the proceedings at the request of the master of the tug *Falcon 1*. In March 2005, the Court rejected the appeal filed by the master and sentenced the master to one year's imprisonment.

## **5 Action by the 1971 Fund against the owner of the tug *Falcon 1***

- 5.1 In January 2000 the 1971 Fund took legal action against the owner of the tug *Falcon 1* maintaining that, since the sinking of the *Pontoon 300* had occurred due to its unseaworthiness and the negligence of the master and the owner of the *Falcon 1* during the towage, the tug owner was liable for the ensuing damage. The Fund claimed Dhs 5 950 976 (£860 000).
- 5.2 The Fund's action gave rise to protracted litigation in the Dubai Court of first instance and the Court of Appeal. In this respect reference is made to paragraphs 6.2-6.7 of document 71FUND/AC.17/12/2.
- 5.3 In April 2004, the Court of Appeal issued a judgement in favour of the 1971 Fund. The Court held that the charterer and the owner of the *Falcon 1* were jointly and severally liable to pay the Fund an amount of Dhs 4.7 million (£680 000).
- 5.4 The 1971 Fund appealed against this judgement to the Court of Cassation on the question of the quantum. The owner of the *Falcon 1* appealed against the judgement on procedural grounds, including, *inter alia*, that the civil case should have been suspended pending the final judgement in the criminal proceedings relating to the incident.
- 5.5 The Court of Cassation issued its judgment on 14 January 2006. In the judgment the Court rejected the tug owner's appeal. The Court of Cassation rejected the Fund's appeal on the quantum and reversed the Court of Appeal's judgment in respect of the charterer, holding him not liable to pay compensation to the Fund. The Court of Cassation upheld the Court of Appeal's judgement as regards the liability of the tug owner, ie that the tug owner was liable to pay compensation to the 1971 Fund in the amount of Dhs 4.7 million (£705 000).

## **6 Recent developments**

- 6.1 At the request of the owner of the *Falcon 1* a meeting was held in London on 20 April 2006 between the Director and the Chairman of Mohammed Al Otaiba Group Est, the company that owned the *Falcon 1*.
- 6.2 The Chairman of the company confirmed that he was in negotiations with the Umm Al Qwain Municipality for the purpose of reaching an out-of-court settlement in respect of its claim. He requested that the Fund should postpone any attempts to resolve the Umm Al Qwain Municipality's claim for the time being. He requested the Fund to delay the service relating to the execution proceedings in respect of the Dubai Court of Cassation's judgment to give him time to resolve the Municipality's claim and the legal proceedings in the Umm Al Qwain Court.
- 6.3 At its May 2006 session, the Administrative Council endorsed the Director's proposal that he be allowed to continue the discussions with the tug owner and to allow the tug owner further time to reach an out of court settlement with the Municipality (document 71FUND/AC.19/5, paragraph 4.3.21).
- 6.4 On 11 September 2006, the tug owner reported that he had reached a settlement with the Umm Al

Qwain Municipality. At a hearing on 28 September 2006 at the Umm Al Qwain Court the settlement agreement was filed by the Municipality's lawyer and a request was made for the action against the 1971 Fund and the other defendants to be withdrawn. However, the lawyer representing the Ministry of Agriculture and Fisheries, whose claim has been agreed in principle with the Fund (refer to paragraph 3.9 above), asked for an adjournment pending settlement of the claim by the Ministry of Agriculture and Fisheries. Consequently, the action against the 1971 Fund was not withdrawn.

- 6.5 The Director, having seen a copy of the settlement agreement between the tug owner and Umm Al Qwain Municipality, and bearing in mind that a settlement has been reached in principle between the 1971 Fund and the Ministry of Agriculture and Fisheries, considers that it is likely that the legal action against the 1971 Fund will be withdrawn in the near future.

## **7 Level of the 1971 Fund's payments**

- 7.1 The maximum amount of compensation available under the 1969 Civil Liability Convention and the 1971 Fund Convention is 60 million SDR (£47.3 million).
- 7.2 In April 1998 the Executive Committee decided that, in view of the uncertainty regarding the total amount of claims for compensation, the 1971 Fund's payments should be limited to 75% of the loss or damage actually suffered by each claimant (document 71FUND/EXC.63/11, paragraph 3.7.4).
- 7.3 Once the claim by the Ministry of Agriculture and Fisheries referred to in paragraph 3.9 has been settled, the Fund's total exposure will be Dhs 200.3 million (£27.8 million). As mentioned above, the 1971 Fund considers that the claims by the Umm Al Quwain Municipality, which total Dhs 192.4 million (£29 million), are time-barred. However, the Fund's lawyer has indicated that the UAE courts might not agree with the Fund on this point. In addition, under UAE law, claimants can increase the amount of their claims in court, but in any event they would be entitled to interest at 9% per annum on any amounts awarded, either from the date of filing the claims in Court or from the date of judgement.
- 7.4 The Director is of the opinion that in view of the continuing uncertainty as to the total amount of the admissible claims, the Fund's level of payments should be maintained at 75% of the total loss or damage suffered by each claimant. However, the Administrative Council may wish to authorise the Director to increase the level of payment to 100% and to pay the outstanding 25% of the settled claims in the event that the legal action against the 1971 Fund is withdrawn.

## **8 Action to be taken by the Administrative Council**

The Administrative Council is invited:

- a) to take note of the information contained in this document; and
  - b) to authorise the Director to increase the level of payments from 75% to 100% of all settled claims if the legal action against the 1971 Fund is withdrawn.
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