

United States  
Coast Guard

## National Pollution Funds Center

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"COAST GUARD APPROVES SECOND LINE AS COFR GUARANTOR"

The U.S. Coast Guard's National Pollution Funds Center announced its approval of a new method of establishing vessel financial responsibility for potential water pollution liabilities. Vessel operators, who intend to use U.S. waters, are required, by the Oil Pollution Act of 1990 and Superfund, to prearrange evidence which demonstrates their ability to pay for removal costs and certain other damages resulting from an oil or hazardous substance spill. The required amounts of prearranged financial responsibility depend upon the vessel's type and size. A vessel which complies with this law is issued a Certificate of Financial Responsibility (COFR).

This newly approved method has been dubbed the Second Line program. It is basically a joint guaranty whereby a financial guarantor and an insurance guarantor agree to back 100 percent of the other's obligation to pay for cleanup and damages resulting from a spill. Each participant in this new joint guaranty must still meet the Coast Guard's criteria as an independent guarantor. This voluntary, industry approach provides double assurance that the costs resulting from a spill will be paid by the owner or operator, or their guarantor, rather than by the Coast Guard's taxpayer-supported pollution fund.

The Second Line program was conceived and developed for Stockton Reinsurance Limited by Mr. Graham Barnes of London, Chairman of Nicholson Leslie BankAssure. The developers of this innovative insurance product believe that it may provide the means for the COFR insurance premiums to be included in the Worldscale freight formula; thereby allowing tanker owners to pass these costs directly to vessel charterers.

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