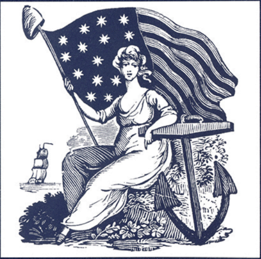
THE AMERICAN CLUB

A CENTENNIAL HISTORY



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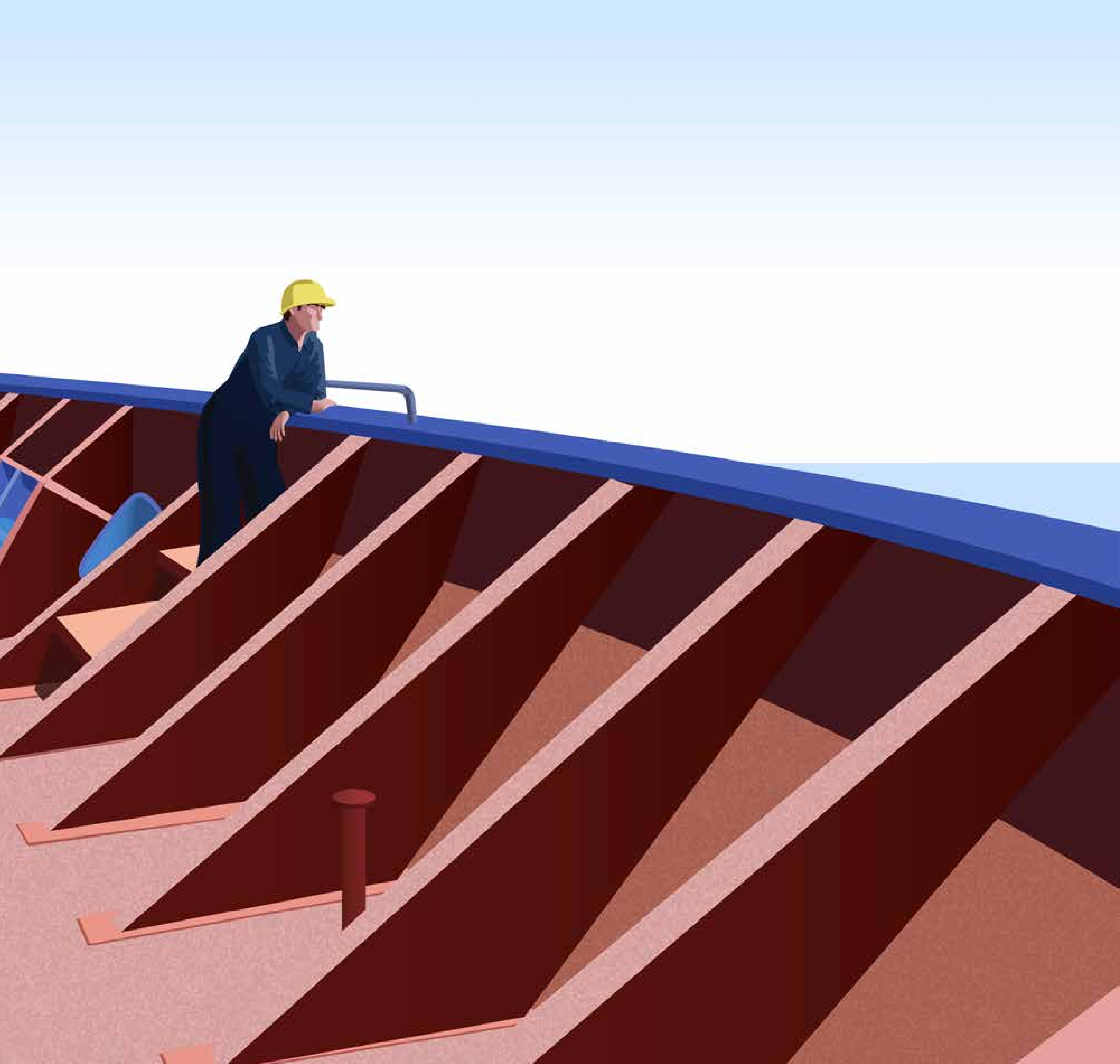

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A CENTENNIAL HISTORY

RICHARD BLODGETT

THE AMERICAN CLUB: A CENTENNIAL HISTORY

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FRONT COVER: **This nineteenth-century image of Lady Liberty—holding an American flag with a liberty cap atop the flagpole, while leaning on an anchor denoting the young nation's strength at sea—is often used as a symbol by the American Club.**

CONTENTS

LOOKING BACK

The American Club was born on February 14, 1917. To this day, it is the only P&I (protection and indemnity) club located outside Europe and Asia. Its history offers a uniquely American perspective on the role and inner workings of the P&I market.

War was raging in Europe when the Club began. At that time, P&I insurance was available primarily from clubs in the UK and Scandinavia. The American Club was established to provide a reliable source of coverage in the United States. For many years, the Club focused exclusively on the needs of American-flag companies. But times change, and the Club has evolved into a global organization serving shipowners worldwide.

The story of the American Club is ultimately about people working together on behalf of the Club's members. Some of the more important and colorful individuals in the Club's history appear in the pages that follow. We hope you will enjoy reading about the American Club and its people and the role the Club plays in the dynamic world of P&I insurance.

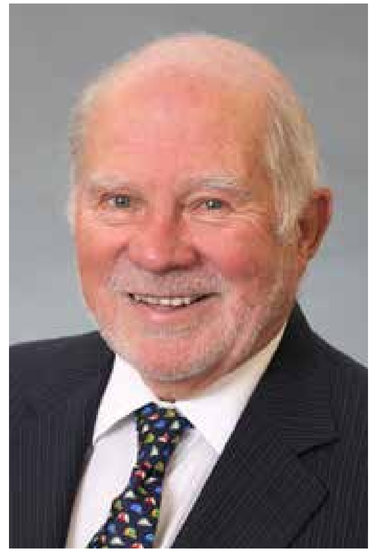
Joseph E. M. Hughes
Secretary, The American Club
Chairman and CEO
Shipowners Claims Bureau, Inc.

LOOKING AHEAD

What does the future hold for the American Club? We are mindful of the many challenges faced by our members in a complex legal, regulatory and operating environment. We will continue to focus intently on meeting our members' needs. Doing so has been, and will continue to be, the basis for our success.

Although we are not the largest P&I club, our size allows us to provide a high level of individual service to each member. The American Club is defined by its personal service excellence. Moreover, we have access to the complete resources of the International Group of P&I Clubs as a full and valued participant.

The Club has grown strongly in recent years, with increases in surplus, free reserves and other key measures. But growth for its own sake is not on our agenda. We will remain selective in our choice of membership within a policy of conservative expansion. This book celebrates the Club's first century with an eye to a bright future.



John A. Witte

J. Arnold Witte
Chairman, The American Club
President and CEO, Donjon Marine Co., Inc.


49–51
PARSONS & EGGERT
MARSH & McLENNAN
THOMPSON STARRETT COMPANY
HEIDELBACH
ICKELHEIMER&C
JOHNSON & HIGGINS
COLGATE PARKER & CO.
AGENCY UNION BANK OF CANADA

CHAPTER ONE

Why P&I Clubs Exist

Protection & indemnity (P&I) clubs—including the American Club—are among the most unusual insurance companies in the world. *The Journal of Commerce* has described them as "unique," *Lloyd's List* has called them "arcane" and a senior vice president of the Nautical Institute has said they are "mysterious."

Putting aside the mystique, their basics are relatively simple: the clubs are mutual insurance companies, or groups of shipowners who have joined together to insure each other against liability risks such as injuries to crew or damage to docks. The liability insurance purchased by shipowners is similar to the coverage many homeowners buy to protect against third-party risks, such as a neighbor being bitten by the family dog—except that homeowners buy their coverage from commercial insurers and shipowners buy theirs mainly from not-for-profit clubs.

PRECEDING PAGES: The American Club was founded in 1917 in the offices of insurance broker Johnson & Higgins at 49 Wall Street in New York.

ABOVE: Norwegian seamen unload a shipment of ice in London in an era when modern technology did not yet exist. The first P&I clubs were formed in the nineteenth century to insure against third-party liabilities such as injuries to crew and damage to docks.

In 1907, a member of the British Parliament quizzed Alfred William Daniels, a veteran sea captain, about the role of P&I clubs. The MP even suggested that the clubs did not serve any useful purpose, to which Daniels replied, "There are so many liabilities that a shipowner comes under, that it is really unsafe for a man to be running about the sea with his ship not protected by a club." He added crisply, "Where a shipowner is not already in a club, he ought to be."

Generations of shipowners have agreed with Captain Daniels' assessment. Today, more than 90 percent of the world's oceangoing tonnage—including tankers, freighters and cruise ships—is insured by P&I clubs.

Of the 13 clubs in the International Group, an industry organization, most are located in Europe. There is just one P&I club in the Western Hemisphere: the American Steamship Owners Mutual Protection and Indemnity Association, Inc., known as the American Club, based in New York. The American Club celebrates its 100th anniversary in 2017.

This book tells the story of the P&I clubs—their traditions, inner workings and people, and how they have evolved over the years as maritime risks have become larger and more complex—through the spyglass of the American Club.

Origin of the Clubs

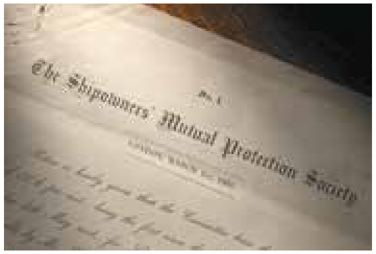
P&I clubs got their start in the UK in the mid-nineteenth century. Liability insurance did not yet exist. In fact, P&I clubs invented it.

At that time, shipowners bought hull insurance to protect against damage to their own vessels, as they still do today. However, they didn't need liability insurance because courts in that era awarded only minimal damages, if any at all, for harm caused to others. Until 1846, for instance, a widow in the UK could not sue for damages if her husband was killed in an accident even if the accident was caused by someone else's negligence. Under the legal theory of the time, any claim for damages rested solely with the person who was killed, and that person couldn't sue because he was no longer alive.

Then the concept of liability began to change. Legislators and the courts not only created new forms of liability, they also broadened the liabilities that already existed and increased the amounts of money awarded to victims—trends that continue today.

The maritime industry got its first inkling of this new legal environment when a British judge ruled in *De Vaux v. Salvador* in 1836 that a shipowner's standard hull policy did not cover the costs for damages inflicted on another ship in a collision. Shipowners now faced the prospect of having to pay those damages from their own pockets. Stunned by this ruling, shipowners turned to their hull insurers for help: they asked the insurers to add a "running down" clause to hull policies to cover any liability for damages to another ship in a collision. The insurers agreed—in part. They added the requested clause, but it covered only three-quarters of the damages, leaving shipowners responsible for the other one-quarter, a potentially hefty sum.

Other new liabilities followed. In 1846, Parliament passed the Fatal Accidents Act (also known as Lord Campbell's Act), allowing the families of those killed through the negligence of others to recover damages. And in 1847 the Harbour, Dock and Piers Clauses Act made shipowners responsible for any damage their vessels caused to port property.



TOP: Shipowners' Mutual Protection Society, the predecessor of today's Britannia P&I Club, was the first P&I club in 1855.

BOTTOM: Lord Campbell's Act (the Fatal Accidents Act of 1846) was named for Lord John Campbell, a British attorney and member of Parliament. It was one of several nineteenth-century laws that expanded the legal liabilities of shipowners, creating a need for P&I insurance.

These and similar laws made sense from the viewpoint of those who had suffered losses in accidents and were seeking financial redress. Moreover, they seem modest in scope when compared to the litigation-crazy world we live in today. Nonetheless, change can be disruptive. By the 1850s, the *Times* of London wrote, shipowners were feeling "growing apprehension" about the "heavy burden" of liabilities they were being asked to bear.

As their liability exposures increased, shipowners turned again to their hull underwriters, this time asking that they provide coverage for all liabilities, including death, injury, damage to docks, removal of wrecks and the uninsured one-quarter of "running down" claims. But the underwriters were reluctant to take on risks that were still evolving and not yet well defined. So shipowners chose the only alternative available to them: they banded together and formed P&I clubs to self-insure their liability risks.

The unusual dual structure of the marine insurance market continues today: most shipping companies buy their hull coverage from for-profit commercial insurers and their P&I coverage from not-for-profit clubs.

Shipowners' Mutual Protection Society was the first P&I club in 1855. It was organized in London and was the predecessor of today's Britannia Club. Other early clubs included the Shipowners' Protection Association in Topsham and the North of England Iron Steamship Protecting Association in Newcastle. By 1900, there were nearly 20 P&I clubs in seaports across the UK as well as in Norway and Sweden.

These first P&I clubs were similar in structure and spirit to hull insurance clubs, which had existed earlier in the century but had faded from importance. "Today's P&I clubs are the direct descendants of the hull clubs," according to attorneys Steven J. Hazelwood and David Semark in their 2010 book *P&I Clubs: Law and Practice.* Early P&I clubs were "very local friendly affairs usually managed by only a secretary and a manager or a small committee" and afforded "an immediate, local and intimate means of taking insurance on ships."

They were called clubs because they were (initially at least) small, unincorporated associations, roughly comparable to the clubs where British merchants gathered to discuss their common interests and concerns. The term continues to be used today even though P&I clubs are now sizable global corporations. In another nod to tradition, the shipowners who control the P&I clubs and buy insurance from them are called "members," just as they were a century and a half ago.

Many early P&I claims were tiny from today's perspective. The first claim paid by the American Club in 1917 was $20 to a seaman who had been injured in an accident on an oil tanker. One of the largest claims to appear in the Club's records in its first two years involved a shipment of cigars from Manila to San Francisco in 1918. The cigars were damaged by seawater that leaked into the hold of the ship. They were valued at $14,300 in perfect condition and were sold in damaged condition for $6,100, resulting in an $8,200 claim.

The P&I business has evolved from those simpler times when most claims were relatively small. Not only have the dollar amounts escalated (in a dramatic recent example, the P&I industry paid some $1.5 billion to refloat, remove and dismantle the

Liability insurance was controversial at first. A West Coast newspaper claimed such insurance would make "scoundrels out of good men" by allowing them to engage in negligent conduct without having to bear the financial consequences of that conduct.

ABOVE: In 1909, Congressman William Humphrey protested the "deplorable condition" of the American merchant marine, calling the "absence of the American flag from the seas" a "patriotic disgrace."

Costa Concordia after it ran aground off Italy in 2012), but P&I clubs have added new areas of coverage, such as oil pollution liability insurance, as their members' needs have changed.

Joseph E. M. Hughes, secretary of the American Club, says, "Because P&I clubs are owned by their members, we have a culture of being responsive rather than saying 'no.' The relationship we form with our members is unique in the marine insurance industry. That continues to give the clubs strength."

Liability insurance was controversial at first. A West Coast newspaper, the *San Francisco Call,* claimed that such insurance would make "scoundrels out of good men" by allowing them to engage in negligent conduct without having to bear the financial consequences of that conduct. A New York judge insisted that liability insurance was "immoral."

But attitudes changed over time. Liability insurance is now woven into the fabric of human activity and provides the main source of funds to compensate victims of accidents. Today it is considered irresponsible *not* to have liability insurance. Indeed, some forms of liability insurance, such as automobile coverage, are mandatory in many parts of the world. And it all began with the P&I clubs.

Sudden Revival of the American Merchant Fleet, and a British Blacklist

It was against the background of these events that the American Club was born in February 1917. Until then, shipowners in the United States purchased their P&I cover from clubs in the UK. But World War I created the need for a club based in the States.

The American merchant fleet had fallen on hard times prior to the war due to rising costs and the failure of the United States to keep pace with British innovations in steel-hull ships. In 1830, American-flag vessels had carried 90 percent of the nation's ocean-borne exports and imports but by 1910 they carried just 9 percent, causing great angst. William Humphrey, chairman of the House Merchant Marine Committee, railed against the competitive shortcomings of the American merchant marine, calling the situation "a patriotic disgrace."

However, the outbreak of war in 1914 led to a global shortage of shipping capacity and sharply higher cargo rates, creating a new burst of opportunity for the American fleet. Shipyards sprang into action, building hundreds of new oceangoing vessels. The rebirth of the nation's maritime industry was big news. A headline in the Tacoma, Washington, *Times* proclaimed, "Ahoy! What's This? Revived American Merchant Marine!"

Conditions were now ripe for the creation of an American P&I club. However, it took a push by the British—when they blacklisted 82 American corporations for supposedly trading with the UK's enemies—to make an American club actually happen. The British didn't expect their blacklisting of the 82 companies to lead to the formation of an American P&I club. But it worked that way.

Parliament had approved the Trading With the Enemy Act in 1914 with a goal of shutting off all economic contact between the United Kingdom and its enemies, including Germany, during the war. But in July 1916, in an unexpected twist, Great Britain reached across the Atlantic and claimed the 82 companies (mostly New York-based export-import firms with German-sounding names) were enemy controlled and subject to the act's provisions. It immediately blacklisted them, with far-reaching consequences: British subjects were barred from doing business with them; British insurance and banking services were no longer available to them; British cable and mail facilities could not be used by them; and access to British-controlled seaports worldwide was denied them.

Under different circumstances, the blacklisting of fewer than 100 American companies, none a household name, might have been greeted with a yawn. But it occurred at a time when Anglo-American relations were already frayed by a number of contentious issues, including the policy of the United States—still a neutral nation—to trade with Germany despite the war. The blacklisting added to the tension and caused outrage in the United States. The State Department protested the action in "the gravest terms" and accused the British government of "arbitrary interference" in American affairs.

The situation was especially dicey for American steamship lines. If they continued to carry cargo for the 82 proscribed companies, they would offend the British and might risk being blacklisted themselves. American steamship owners would no longer be able to buy P&I cover from a British club if they were blacklisted. On the other hand, the US Department of Justice warned the steamship lines that they would run afoul of US antitrust law if they gave in to the British and refused to carry goods for the 82 firms.

Caught in the middle of a nasty international dispute, the simplest way for the US maritime industry to ensure the continued availability of P&I coverage, regardless of the blacklist, was to form an American P&I club. Johnson & Higgins, the premier US marine insurance broker of the time, rose to the challenge and did just that. It founded the American Club to meet its clients' needs for a P&I insurer based in the United States.

RIGHT: There was considerable tension between the US and UK during the first three years of the war when the US was neutral. In November 1915, the US filed a formal protest that the British navy, in seeking to blockade German, was illegally boarding and searching American ships on the seas. In this satirical cartoon from the *New York World,* a lion and John Bull, symbols of Great Britain, cry as if their feelings have been hurt by the protest, while US ships remain stuck in port because of the blockade.

BELOW: The Navy used a wooden mockup of a battleship as a training and recruiting station in New York during World War I.

The American Club's Founders

The Club was the brainchild of two men: Russell Loines, a poet turned businessman, and W. H. LaBoyteaux, a businessman who loved racehorses. Loines was the secretary of the Club at its founding and LaBoyteaux was Johnson & Higgins' president. It is hard to imagine two individuals of such totally different backgrounds, interests and personalities.

Loines was a child of privilege. He was born in 1874 to a wealthy New York City family which prized nonconformity. His father was a Quaker who supported women's suffrage, and his mother was a suffragette and student of Hindu culture. They lived in a mansion in Brooklyn Heights that still exists and has been called "one of the most elegant brownstones remaining in New York" by the American Institute of Architects.

Loines was tall and athletic. He played varsity tennis in college and enjoyed taking brisk walks in the country. Poet Wallace Stevens, himself an inveterate walker, recalled, "I was a good walker in those days, but Loines was long and thin and when he let himself out it was impossible to keep up with him."

After graduating from Columbia University and Harvard Law School, Loines practiced law briefly but quit to write poetry. Several of his poems—with titles such as "Teach Me, Dearest, How To Win Thee" and "Lines To a Clock"—were published in literary magazines. But after two years of middling success, he realized that his literary talent was limited and poetry was not his calling. So in 1902, he made an abrupt career change and joined insurance broker Johnson & Higgins, where his father was a senior partner. In time, he became manager of the firm's Club Department (which placed insurance on behalf of clients with P&I clubs in the UK), and

TOP: Russell Loines was an attorney, insurance executive and poet who was the secretary (manager) of the American Club at its founding in 1917.

ABOVE: Loines grew up in this handsome townhouse in Brooklyn Heights, overlooking New York Harbor.

that position led to his role in the founding of the American Club.

Loines was known for his warmth, intelligence and generosity and had many friends in the literary and business worlds. When he died prematurely in 1922 at age 48, his friends published a 268-page book of his poems and letters and established a $1,000 annual Russell Loines Award for Poetry to honor his memory. "Everyone who knew Russell Loines loved him," the *New York Post* wrote.

Unlike Loines, William Harvell LaBoyteaux—known to colleagues as Harvell or W. H.—was a self-made man who was anything but universally loved. Capable, tough-minded and intimidating, he ruled Johnson & Higgins with an iron hand.

LaBoyteaux was born in 1872 in rural Henderson, North Carolina, the oldest of 11 children. His father was a farmer and Civil War veteran who had fought with the 1st North Carolina Sharpshooters against Union forces at Gettysburg. W. H.'s younger brother, John, "knew from childhood how to drive a team of horses, slaughter animals, train hunting dogs, harness and manage pack animals, put up loose hay, tend an orchard and garden and all the other skills required on a small farm," according to John's grandson—a description that almost certainly applied to W. H. as well.

Many Americans lived their entire lives near where they were born. But the LaBoyteaux children were independent-minded and self-confident and ventured forth. One of W. H.'s brothers moved to Alaska and was elected to the territorial senate; another moved to San Francisco and became a corporate executive. W. H. himself left home at age 17 to enter the insurance business in New York. He advanced quickly in a series of jobs at various firms and, along the way, became one of the nation's leading authorities on marine insurance and average adjusting. He signed on with Johnson & Higgins at age 22 as an average adjuster and head of the Philadelphia office, later transferring to San Francisco where he built that office into one of the largest and most profitable in the firm.

In 1916, when the president of Johnson & Higgins retired, the board of directors invited LaBoyteaux to New York to interview for the position. There are differing accounts of what happened next. In one version, he stopped at Chicago and phoned a senior member of the board to demand that he be named president immediately, saying he would not continue to New York unless he was. In another version, he got to New York and was offered the job, but accepted only after exacting a promise that he would have absolute authority. Whatever the case, he was elected president in 1916 at age 44 and was the undisputed leader of the firm for the next 31 years until his death.

Under his leadership, Johnson & Higgins was extraordinarily successful—and he was extraordinarily well paid. In 1920, he testified at a civil trial in which Johnson & Higgins was a defendant that he earned $161,500 a year, a princely sum in those days. On cross examination, he acknowledged that he didn't know "and had never heard of anyone else who received such a salary." By 1942, he was making $321,800 a year, the eighth highest salary in the nation, according to a list issued by the federal government—better even than the CEO of General Motors, the world's largest corporation, who ranked a mere 11th with a salary of $303,100.

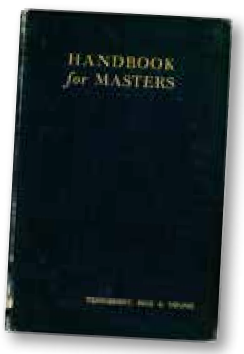
Outside the office, LaBoyteaux was as passionate about racehorses as Loines was about poetry. He didn't bet on races and seldom went to the track, but made his mark as a breeder at his farm near Holmdel, New Jersey. Most famously, he bred Imperatrice, grandam of the legendary 1973 Triple Crown winner Secretariat. *The Daily Racing Form* described LaBoyteaux as "one of the most influential racing men of his era."

The American Club Is Born

Loines had plunged headfirst into insurance brokerage after giving up his dream of becoming a poet, writing to a friend that "the business world is highly interesting." He was full of energy and ideas, and as early as 1904—two years after joining Johnson & Higgins—he thought about creating an American P&I club that would be managed by J&H. However, it was not until 1917 that he would have the opportunity to do so, with the full support of LaBoyteaux.

LaBoyteaux, Loines and their colleagues at Johnson & Higgins moved quickly once the chance to form an American Club arose. They used the London P&I Club, where Loines had worked briefly, as a model. They based the formal name of the new club (American Steamship Owners Mutual Protection and Indemnity Association, Inc.) on the formal name of the London Club (London Steam-Ship Owners' Mutual Insurance Association Limited) and also based the new Club's rules and terms of entry on those of the London Club.

Moreover, they had the political clout to win legislative approval and get a state charter posthaste. James A. Hatch was general counsel of the J&H Club Department. He also happened to be a New York City councilman and an executive member of the Republican State Committee. With his help, legislation to permit the formation of a P&I club breezed through the New York State legislature. The legislation was introduced on January 16, 1917; it



TOP TO BOTTOM: W. H. LaBoyteaux, CEO of Johnson & Higgins, was a founder of the American Club and one of its most ardent supporters. He bred racehorses, including Imperatrice, above, as a pastime. *Handbook for Masters* was one of two maritime books he wrote.


STATE OF NEW YORK
Insurance Department

I, JESSE S. PHILLIPS, Superintendent of Insurance, do hereby certify that I have compared the annexed copy of Certificate of Incorporation of the AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION AND INDEMNITY ASSOCIATION, INC., of New York,

with the original on file in this department and that the same is a correct transcript therefrom and of the whole of said original.

In Witness Whereof, I have hereunto set my hand and affixed my official seal, at the City of Albany, this 15th day of February 1917.

Jesse S. Phillips
Superintendent of Insurance

ABOVE LEFT: The New York State superintendent of insurance attested to the accuracy of the Club's certificate of incorporation.

ABOVE RIGHT: The Club's offices were initially located with those of Johnson & Higgins in the 18-story Atlantic Mutual Building at Wall and William streets in Lower Manhattan.

BELOW: Although the US had not yet entered World War I when the Club was founded, newspapers were filled with stories about the conflict raging in Europe and the dangers to American ships at sea.

was vital that it be passed before February 20, the annual date on which shipowners around the world renew their P&I memberships and are free to change clubs. (In one of the more unusual aspects of the P&I business, insurance is renewed each year on February 20 because historically that was the date when British ships, having been laid up for the winter, could leave port on the River Tyne with reasonable assurance that the Baltic Sea would be ice-free when they arrived.) The American Club would have to wait another year, until February 20, 1918, to enlist members if the enabling legislation was not passed on time.

In fact, the legislation sailed through the state assembly and senate without opposition and was signed into law by the governor on February 14, 1917. Loines wasted no time: within three days of the signing of the law, the American Club filed its incorporation papers, received a charter from the state insurance superintendent, appointed a five-member board of directors and began accepting members.

And so it was that the Club's directors gathered for the first time on Saturday, February 17, 1917, at the offices of Johnson & Higgins on Wall Street. Johnson & Higgins had been marketing the Club to its clients since early January, well before the law was passed, and dozens of membership applications were awaiting the directors on that chilly winter morning. Many American shipowners were eager to join the new club not only because of concerns about the British blacklist. The British government had, in general, been tightening its control of P&I clubs since the war began. American shipowners "did not feel a need for any P&I market other than the British clubs until the outbreak of the World War," *The Weekly Underwriter* magazine recalled in 1937. But as the war dragged on, some owners worried


The Sun.

IT SHINES FOR ALL

NEW YORK, TUESDAY, FEBRUARY 20, 1917. ONE CENT

WOMEN START FOOD RIOTS IN 3 PARTS OF CITY

GEN. FUNSTON DIES SUDDENLY

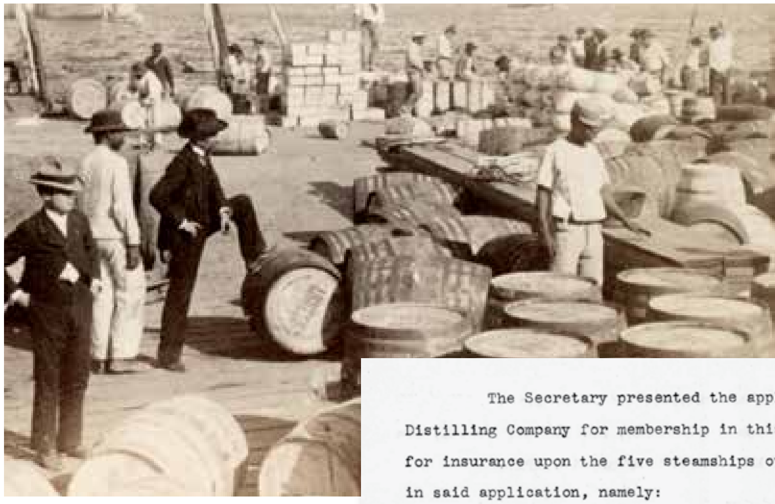
WILSON WILL NOT APPEAL TO CONGRESS NOW; IS DETERMINED TO PLACE BURDEN ON BERLIN; GERMANS USE AMERICANS IN GREAT SPY PLOT

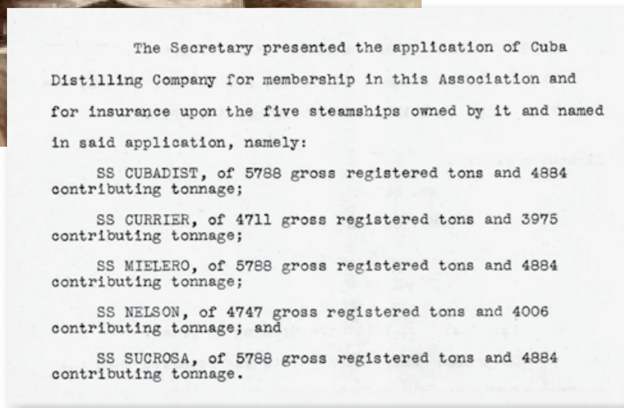
U.S. REFUGEES IN NEED OF AID

HOUSE WANTS WILSON TO ACT

7 SHIPS DAY'S U-BOATS' TOLL

IDAHO RENEWS





The Secretary presented the application of Cuba Distilling Company for membership in this Association and for insurance upon the five steamships owned by it and named in said application, namely:

SS CUBADIST, of 5788 gross registered tons and 4884 contributing tonnage;

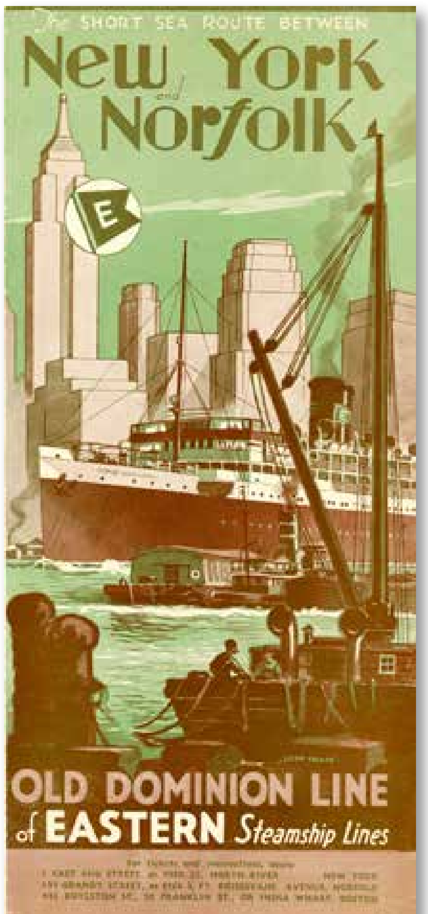
SS CURRIER, of 4711 gross registered tons and 3975 contributing tonnage;

SS MIELERO, of 5788 gross registered tons and 4884 contributing tonnage;

SS NELSON, of 4747 gross registered tons and 4006 contributing tonnage; and

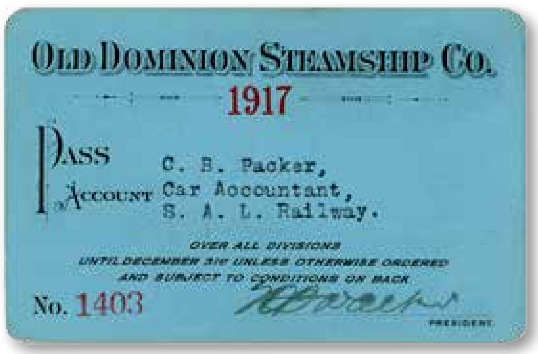
SS SUCROSA, of 5788 gross registered tons and 4884 contributing tonnage.

RIGHT AND ABOVE: Cuba Distilling Company, which produced molasses in Cuba for conversion to industrial alcohol in the US, was the first member of the Club. It entered five ships, as shown in the Club's minutes. Pictured above are the Havana docks.



RIGHT: Vacuum Oil Company was another original member.

LEFT AND BELOW: Old Dominion Steamship Company entered eight vessels that carried passengers between New York and Virginia. Below is the yearly ticket for one of its commuters.



that the British might shut off P&I coverage for the ships of any nation, including the United States, not formally allied with the UK.

Cuba Distilling Company was the first member admitted to the American Club. Based in New York, it produced 80 percent of the molasses in Cuba and was owned by the United States Industrial Alcohol Company, which was in turn controlled by Standard Oil Company of New Jersey. It transported the product in tanker ships to the United States for conversion to industrial alcohol. The company entered all five of its tankers in the Club.

The second member was Vacuum Oil Company, which manufactured Gargoyle 600-W Steam Cylinder Oil (the first successful petroleum-based lubricant for steam turbines) and is best remembered today for having originated the Mobil brand. It entered four oil tankers.

Next was Old Dominion Steamship Company, the dominant steamship line between New York and Virginia in an era—before airlines and interstate highways—when Americans often traveled from one city to another by ship. It entered eight passenger vessels.

Under the terms of the new state law, at least 200 vessels totaling at least 500,000 tons had to be entered in the Club for its insurance to become effective. Loines wrote at the end of the first day that applications had been received for 655,627 tons and that "others are expected shortly, some of them from San Francisco." He added, "These applications are more than are required by the law to do business."

Back then, it took at least five days for a document to reach New York from the West Coast by mail or courier. What if stragglers didn't mail their applications on time? Just to be safe, the

ABOVE LEFT: American-Hawaiian Steamship Company was the Club's largest original member in terms of entered tonnage. It had an exclusive contract with Hawaii's Big Five sugar producers to transport their product to the US mainland.

ABOVE RIGHT: United Fruit Company, the world's leading banana producer, was the second largest original member in terms of entered tonnage.

directors ended their first session by changing the Club's by-laws to accept applications submitted by telegram.

After working all day Saturday, the directors adjourned, took Sunday off and resumed their meeting on Monday. They adjourned again late Monday afternoon and returned on Tuesday, February 20, continuing to approve members before completing their three-day initial board meeting.

Applications trickled in for the next few months, and by the end of August 1917 the Club had more than 50 members with 1,180,132 entered tons. Johnson & Higgins wrote with satisfaction that the response of American shipowners to the formation of a US-based P&I club had been "immediate and positive."

All the original members were clients of Johnson & Higgins. Because the firm did the work to create the Club, LaBoyteaux insisted that it reap the marketing benefits. Several years later, Johnson & Higgins opened the Club to other brokers' clients, but at the beginning any shipowner wanting to join the Club had to do so through J&H.

The Club's founding members included some of the biggest names in the US maritime industry, none bigger than the American-Hawaiian Steamship Company, the most innovative and successful American-flag fleet of the day. It was founded in 1899 by brothers-in-law George Dearborn and Lewis Henry Lapham, who obtained exclusive rights from Hawaii's Big Five sugar producers to transport their product to the US mainland. For delivery to East Coast ports, Dearborn and Lapham built a fleet of steamships capable of navigating the Strait of Magellan in an era when most vessels took the longer route around Cape Horn. In 1907, they switched to a trans-Mexican route: by steamer from Hawaii to Salina Cruz, by railway across the Isthmus of Tehuantepec and by steamer to New York. The opening of the Panama Canal in 1914 further trimmed the company's delivery times and costs. In addition, American-Hawaiian was one of the first steamship companies in the world to fuel its vessels with oil, saving money versus the traditional use of coal. The company entered 20 steamships totaling 135,267 tons in the American Club, the most tonnage of any founding member.

The second largest founding member by tonnage entered was United Fruit Company (best known for

Membership in the Club was initially limited to clients of Johnson & Higgins. Because Johnson & Higgins did the work to create the Club, LaBoyteaux insisted that it reap the marketing benefits.

its Chiquita bananas), with 26 steamships totaling 113,398 tons. United Fruit's London-based affiliate, Elders & Fyffes, also joined the Club and was the only British-flag member.

At their February 1917 meeting, the directors of the American Club approved an entry fee of eight cents a ton plus an advance call of eight cents a ton. (The insurance premiums charged by P&I clubs are often referred to as "calls" and "assessments.") The directors later made a supplementary call of 20 cents a ton.

In addition, the directors approved a 10-year contract with Johnson & Higgins to manage the Club and voted to reinsure half of each risk with the London Club. Ironically, the London Club—which had seen many of its US members depart for the newly formed American Club—was a net winner with more tonnage than before: it reinsured not only half of its own departed tonnage but also half the tonnage that other British and Scandinavian clubs had lost to the American Club. The London Club and its manager, A. Bilbrough & Co., became friends of the American Club and decades later would help the Club in its quest to join the International Group of P&I Clubs.

Prestigious Board of Directors

The Club had a blue-chip board of directors right from the start. The five original directors were all recruited personally by LaBoyteaux and included George Dearborn, cofounder and president of American-Hawaiian Steamship Company; John Damon, treasurer of United Fruit Company, which owned the world's largest fleet of refrigerated vessels for carrying bananas; and William Thompson, president of the steamship division of The Texas Company, one of the nation's largest oil companies and a predecessor of Texaco.

Another original director, Carl Jungen, was general manager of Southern Pacific Steamship Line (a division of Southern Pacific Railroad), which provided luxury passenger service along the Pacific and Atlantic coasts and to ports in the Caribbean. He was an Annapolis graduate and retired navy captain who had survived the sinking of the battleship Maine in 1898.

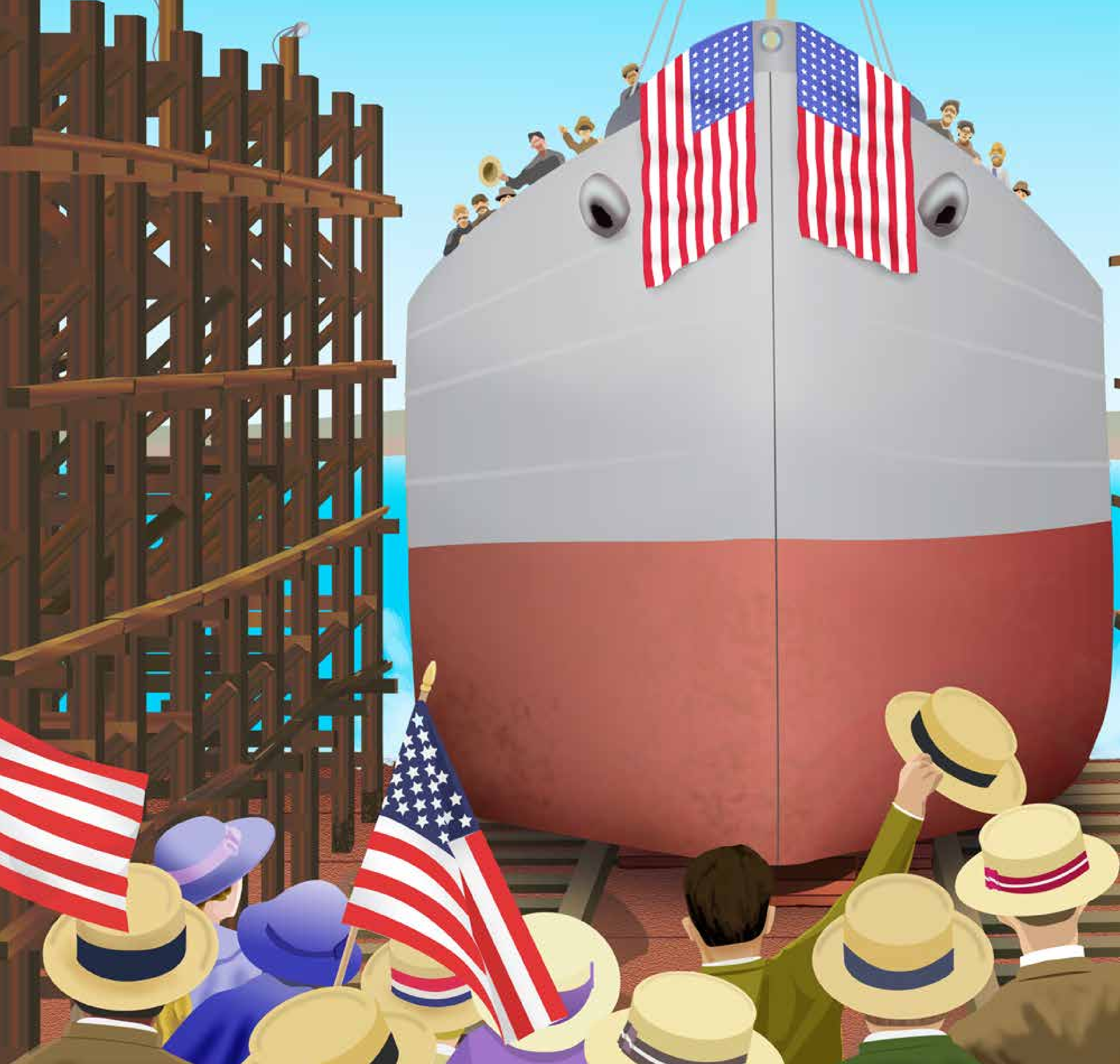
Alfred G. Smith, president of the Ward Line—which carried mail, freight and passengers between New York and Havana—was elected chairman of the American Club board. A natural leader, he was involved in many industry and government groups and had been sent by President Woodrow Wilson on a secret diplomatic mission to Spain at the outset of the First World War. One newspaper described Smith as "a man of broad experience and recognized ability."

Looking back today, Joe Hughes, the Club's current secretary, says, "On January 11, 1917, Johnson & Higgins sent a letter to all American shipowners asking if they had any interest in an American P&I club. It's amazing—just five weeks later, the Club opened for business. And during those five weeks Johnson & Higgins got enabling legislation passed, formed the Club, recruited members, convinced five of the top men in the industry to serve as directors and arranged for reinsurance. Mr. LaBoyteaux and his colleagues knew what they were doing."

But the Club would soon face its first major challenge: America's entry into World War I and the dominant and sometimes contentious role that the federal government's Shipping Board would play in the Club during and after the war.

TOP: Alfred G. Smith, president of Ward Line, served as chairman of the Club for its first nine years.

ABOVE: Ward Line carried passengers, mail and freight between New York and Havana, Nassau and the Gulf of Mexico. It had been founded in 1841 by James Otis Ward and was one of the oldest American shipping companies.



CHAPTER TWO

The American Club and the Shipping Board

Americans were in a frenzy about war when the American Club was formed. On February 1, 1917, just 16 days before the first meeting of the Club's directors, Germany had resumed unrestricted U-boat attacks on the merchant ships of neutral nations, including the United States, in an attempt to blockade Great Britain.

Until then, the United States had refused to embroil itself in a conflict on the other side of the Atlantic. But on April 6, 1917—enraged by the attacks and the growing toll of American lives at sea—the US Congress cast the nation's lot with Great Britain and France and declared war on Germany.

Like most Americans, those involved with the American Club held strong opinions, pro or con, about their nation going to war. Russell Loines, the Club's secretary, favored the

PRECEDING PAGES: The Shipping Board launched more than 2,000 merchant vessels from 1917 to 1922 in one of the greatest shipbuilding programs in US history.

ABOVE: New York Harbor is pictured from Staten Island in a vintage, pre-World War I photo.

BELOW: On April 6, 1917, after both houses of Congress passed war resolutions, President Woodrow Wilson declared that the United States was at war with Germany. He said World War I had been "thrust upon the United States" and called on all Americans to support the nation's military effort.

decision even though his mother Mary and younger sister Elma were active in antiwar organizations. (There was always room in the Loines family for independent thinking and differing opinions.) Loines had many friends in England and believed US intervention on the British side was the best way to end the bloodshed quickly. "I have hopes that the war will end the sooner for our coming into it," he wrote to a friend in London.

On the other hand, he was not pleased to be reminded of the war every time he gazed into his backyard. He and his wife, Katharine, had built a home on Staten Island, overlooking Sandy Hook, New Jersey, and the Atlantic Ocean. Once the United States entered the war, the military mounted a gun in their yard to fire at German forces in the event of an invasion. Loines put up with the inconvenience (he had no choice) but thought it was "almost pathetic"

FINAL NIGHT EXTRA

NEW YORK JOURNAL

FINAL NIGHT EXTRA

FRIDAY, APRIL 6, 1917

ONE CENT

PRESIDENT SIGNS WAR DECREE; CALLS VOLUNTEERS; GERMAN SHIPS IN U.S. PORTS ALL SEIZED

27 VESSELS VALUED AT $51,300,000 TAKEN IN THIS HARBOR

German Crews Held Pending Decision on Status

JAPANESE HAIL U.S. AS ALLY

NEW RUSS GOV'T FOR REPUBLIC

Germany Stunned By Wilson War Message

PROCLAMATION ISSUED BY WILSON CALLS ON ALIENS TO OBEY LAW

BRAZIL AROUSED TALKS OF WAR

that the government believed German troops might actually cross the Atlantic and land near his house.

Nationalization of the Merchant Fleet

President Wilson had won reelection in 1916 with the campaign slogan "He kept us out of war." Yet, he had recognized from the war's beginning in 1914 that the United States would need a large fleet of steamships to carry troops and supplies to Europe if it ever took part.

By 1915, the nation's private-sector merchant marine was growing and prospering following decades of stagnation. But the Wilson administration did not want to leave the task of building a powerful merchant fleet entirely to the private sector. So in 1916 the government created a federal Shipping Board to "restore the American merchant marine to its old glory," in the exuberant words of Edward Hurley, the board's chairman.

The board took on the job of subsidizing ship construction and developing an auxiliary navy. In addition, it was the first federal agency in US history with broad powers to regulate maritime companies, including the regulation of cargo rates.

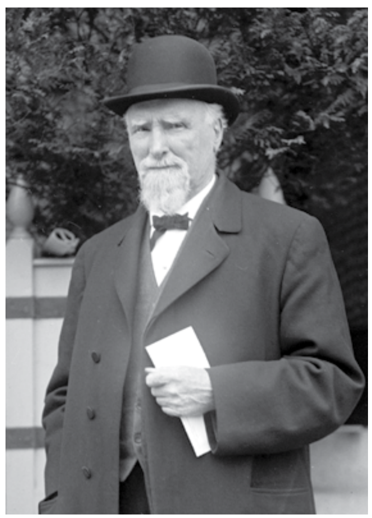
Many steamship executives were wary of the government's sudden interest in their industry. Shipowners such as Robert Dollar, the colorful president of American Club member Dollar Steamship Company, were rugged individualists who had succeeded against difficult odds and were agitated by the very thought of federal regulation. Dollar publicly accused the Shipping Board of destroying the "initiative, pep and getup" of shipowners by sticking its nose in their business.

But what happened next was even more unsettling to some in the industry. Once the United States entered the war in April 1917, the need for a huge merchant fleet became real. Congress debated whether to nationalize the maritime industry or provide subsidies to steamship lines to build and manage the ships that were now required to transport soldiers and supplies to Europe. It chose the former.

To carry out the Congressional mandate, the Shipping Board formed an affiliate, the Emergency Fleet Corporation, which took over the nation's shipyards and ramped up their production. In addition, the Fleet Corporation requisitioned existing oceangoing steamers, paying "legitimate values" rather than "artificially inflated" market values, according to Hurley.

In most cases, the Fleet Corporation chartered the vessels back to the companies from which it had acquired them. Thus, steamship lines continued to operate their vessels even though the vessels were now owned by the Fleet Corporation, which controlled their cargoes and routes. The Fleet Corporation eventually owned nearly 2,500 steamships and became the largest maritime company in the world.

The federal takeover of the nation's merchant fleet represented "one of the largest experiments in government ownership America had yet seen," according to *The Journal of Economic History,* and for that reason was highly controversial. Elihu Root, a well-known Republican senator, accused the Wilson administration of promoting "state socialism."



ABOVE: "On the Job for Victory" was one of many posters issued by the Shipping Board. The board retained some of America's best painters and graphic artists to create its posters. "On the Job for Victory" was the work of Jonas Lie, an Impressionist whose paintings are owned by the Metropolitan Museum of Art, Art Institute of Chicago and other museums.

LEFT: Robert Dollar, president of American Club member Dollar Steamship Company, was a rugged individualist who complained about the federal government's involvement in the maritime industry. He believed the private sector could build and operate all the merchant ships needed for the war without government "interference."

ABOVE: George C. Marshall, future five-star general and US secretary of state, was a young army captain when he sailed across the Atlantic in 1917 in the first American troop convoy to France.

BELOW: Marshall sailed on the *Tenadores,* shown in wartime camouflage. She was attacked by a U-boat during her voyage but escaped unscathed.

Despite this controversy, many maritime executives wanted to do their patriotic duty and support the war effort in any way they could. American Club director Carl Jungen, general manager of the Southern Pacific Steamship Line, told the *New York Times,* "The taking over of ships by the government means loss to the lines. Well, that will be a cost of war, for it is going to cost to win. It would mean a far greater cost to lose."

Escaping a Potential Early Death

For the American Club, these events were a potential deathblow. The Club was less than two months old when America entered the war. Yet it suddenly faced the prospect of dwindling tonnage as ships were requisitioned from its members by the Emergency Fleet Corporation and withdrawn from the Club.

In May 1917, the 7,800-ton *Tenadores,* owned by United Fruit Company, became the first steamship entered in the Club to be taken by the government. A month later, after being painted in camouflage and refitted to carry soldiers, she joined the initial American troop convoy to France. Those on board the *Tenadores* included George C. Marshall, a staff officer with the First Division who would later gain fame as Army chief of staff during World War II and US secretary of state from 1947 to 1949. During the crossing, a U-boat attacked the convoy at night, firing at least four torpedoes without scoring any hits. Marshall was unfazed even when he saw a torpedo pass directly in front of the *Tenadores.* In fact, he took a humorous view of the incident. Later, when the War Department released news of the attack, Marshall said that he and other division officers "were entertained in reading the thrilling account of this affair."

Other requisitions of vessels entered in the American Club followed. The outlook for the Club was especially grim because the US government self-insured its risks and did not normally rely on the private insurance market. But W. H. LaBoyteaux—smart, practical and persuasive as always—came up with an answer: rather than fight the government, he allied himself with the Shipping Board and became chairman of its advisory insurance committee. From this position of influence, he convinced the board to enter the Fleet Corporation's steamships in the Club. His efforts not only saved the American Club but gave it an enormous boost in tonnage during World War I.

LaBoyteaux's ability to win over the Shipping Board was an extraordinary coup given that the board, during its 18-year existence, self-insured all its other risks. P&I insurance was the only area in which it bought coverage from the private sector.

The Club insured the board against liability for injuries, property loss and other third-party damages

due to accidents, but not for war risks. The government self-insured its risks for losses related to the war, such as ships sunk by U-boats or damaged by shells. Regardless of this limitation in coverage, the Club kept busy day after day handling claims such as one submitted by the chief engineer on the *Western Wave*, who slipped and injured himself while climbing a ladder aboard the ship. In another case, hides being transported on the *West Alsek* were damaged when a water pipe burst. Each month, the Club resolved scores of similar claims involving Shipping Board vessels.

The Shipping Board's Hurley, in his 1927 book *The Bridge to France*—referring to a "bridge" of troop and cargo ships across the Atlantic during the war—sidestepped the issue of whether the board had disregarded federal policy by purchasing P&I cover. He said the Shipping Board joined the American Club not so much to obtain insurance as to take advantage of the Club's ability to investigate and settle claims, something the board did not have the resources to do on its own. The Club offered "a means of prompt handling of claims arising through damage to cargo or injury to members of the crews," he wrote. Or as another senior official of the Shipping Board put it, "The facilities of the Club are the best local legal talent in practically all the ports of the world."

The Shipping Board Becomes the Largest Member

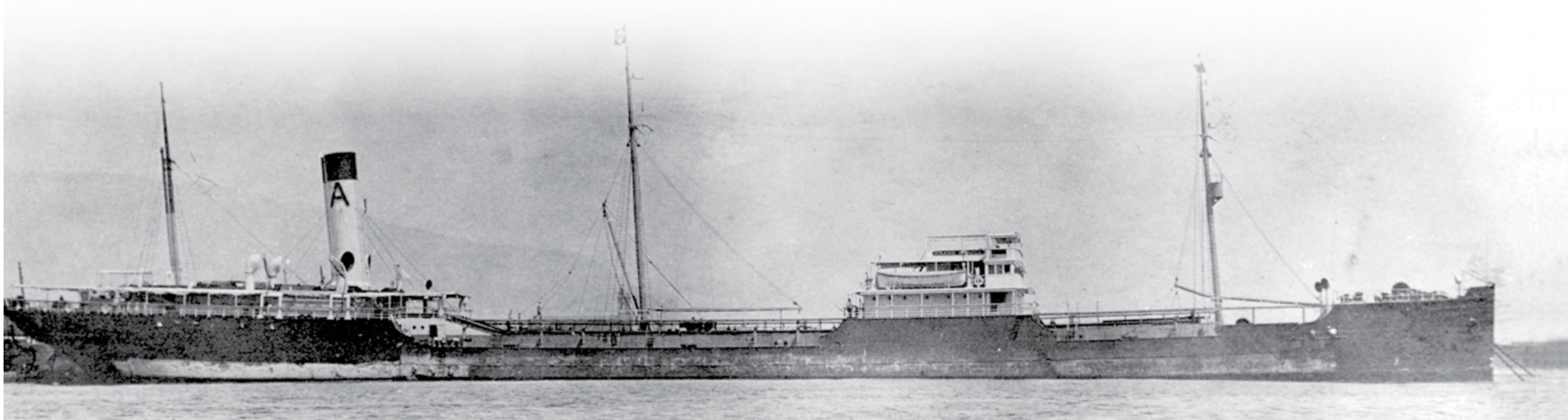
World War I lasted more than four years. The United States took part for the final 19 months. The American Club played a direct role for just 10 months—from the time the Shipping Board joined the Club in January 1918 until the armistice was signed in November 1918. But those 10 months were a remarkable period for an organization that had not even existed at the beginning of 1917.

The 10 months began when Russell Loines met with senior officials of the Shipping Board in January 1918 and finalized the terms of the board's membership in the Club. Within days, the board had entered 85 vessels totaling 390,000 tons. It continued to enter vessels for the remainder of 1918 and kept doing so after the war, becoming the Club's largest member by far. By February 1922, of the 9.4 million tons entered in the Club by all its members, nearly 80 percent was Shipping Board tonnage. Indeed, February 1922 was a milestone for the American Club: at its peak tonnage that month, the Club stood for a time as perhaps the biggest P&I club in the world.

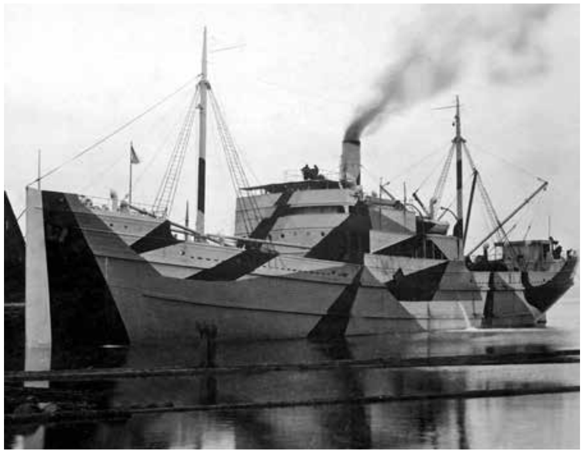
The 10 months in 1918 were a merry-go-round of changing ownership and uses of steamships. Each of the hundreds of ships entered in the Club had its own story, one of the more interesting being that of the oil tanker *Frank H. Buck*. The *Buck* was

The Shipping Board joined the American Club primarily because of the Club's ability to manage claims worldwide. A Shipping Board official said, "The facilities of the Club are the best local legal talent in practically all the ports of the world."

BELOW: The oil tanker *Frank H. Buck* was one of many merchant ships insured by the Club during the war. In a rare example of the prey defeating the hunter, she used her six-inch gun to sink a German U-boat that attacked her.



one of the largest and most modern American-flag tankers of the time. She was built in 1914 for Associated Oil Company of San Francisco, which used her to deliver oil to refineries along the West Coast. Associated entered her in the American Club in February 1917. Not quite a year later, in January 1918, the *Buck* was requisitioned by the government and was withdrawn from the Club by Associated, but was immediately reentered in the Club by her new owner, the Shipping Board. The board then moved her to the Atlantic Ocean and chartered her to The Texas Company, which had a contract to supply fuel oil to US Navy depots in Great Britain.



RIGHT: The Shipping Board launched many wood-hull cargo ships during the war, including this camouflaged freighter built at the Pacific American Fisheries shipyard in Bellingham, Washington.

BELOW: Wood-hull ships, including this one at the McEachern Shipyards in Astoria, Oregon, could be built faster and less expensively than steel-hull vessels. However, they proved too small and too slow to be of much use, and many of them were scrapped after the war.

Over the next several months, the *Buck* completed six round trips between the United States and England and became one of the legendary American tankers of World War I when she sank a U-boat. This occurred in September 1918 while she was returning to the United States in ballast. In a dramatic half-hour battle at sea, the U-boat—which was patrolling on the surface—spotted the *Buck* and opened fire with her guns. The submarine got off 40 shots, each of which missed the zigzagging tanker. The *Buck*, meanwhile, fired 29 shots and scored direct hits with the final two, sending the U-boat to the bottom. At the end of the war, the *Buck* was withdrawn from the Club by the Shipping Board and returned to Associated Oil. Associated then reentered the vessel in the Club, after which she resumed her previous life of delivering oil to West Coast refineries.

The Club insured a hodgepodge of Shipping Board vessels: troop ships, cargo ships, tankers, tugs and barges; steam powered and sail powered; steel-hull, wood-hull and even a few experimental steamships made of concrete. It stood ready to support the war effort by insuring any vessel, large or small, new or old, of standard or unusual design, that the Shipping Board sent its way.

In August 1918, Loines wrote to his wife (who was at their summer home on Martha's Vineyard) with a certain bemusement, "We had an interesting directors' meeting today. Some 74 French sailing ships of steel—full-rigged ships, commandeered by the French Government and chartered to the Shipping Board—are being offered to the Club by the French High Commission." Because sailing ships were obsolete for war use, the Shipping Board had taken the vessels off the hands of the French government and, in return, had chartered American steamships with comparable tonnage to the French. The Shipping Board had then deployed the sailing ships "in safe waters at home and in the South American nitrate trade," Hurley wrote in his book. The Club's directors agreed to insure the French vessels even though the Club, according to its rules, only insured steamships.

In another unusual episode, the Emergency Fleet Corporation built 323 wooden freighters, each about 3,500 tons and equipped with old-fashioned reciprocating steam engines, and entered them in the Club. Although steamships made from wood seemed wildly improbable in an age of steel, they could be fabricated quickly and inexpensively, enabling the Fleet Corporation to get more vessels in the water faster. "And if you think it is an easy matter to sink a little ship—a little ship of wood, if you please—you are welcome to try the experiment," Huntington Clark, an architect of the wooden-steamship program, told a magazine writer.

The media loved the story of the quaint wooden boats. "America is building wooden ships again, not spasmodically, not sentimentally, but systematically, as a big part of our plan to crush the German Kaiser and all the things for which the German Kaiser stands," *Everybody's Magazine* enthused in 1917. But the wooden steamships were too small and too slow to compete with steel-hull ships, and they never played much of a role in the war. Many were later sold for scrap.

Ships, Ships and More Ships

When the United States declared war in April 1917, the Emergency Fleet Corporation was under desperate pressure to build as many steamships as possible as quickly as possible to ferry American troops and

LEFT: In a display of patriotic fervor, the Shipping Board launched 95 ships on July 4, 1918. The poster shows an eagle leading a fleet of ships, followed by waves of cavalry, infantry, artillery and warplanes, all headed to Europe to join the fray. General John J. Pershing, commander of American forces in Europe, said of the 95-ship launch, "No more defiant answer could be given to the enemy's challenge. All hail American shipbuilders!"

RIGHT: The Hog Island shipyard near Philadelphia launched its first vessel, the *Quistconck*, in August 1918. Hog Island quickly became the largest shipyard in the world.

BELOW: A political cartoon in the *New York Herald* lampooned cost overruns at Hog Island.

BOTTOM: In 1919, the Association of Northwestern Shipbuilders presented a solid-silver model of a World War I freighter to Charles Piez, outgoing director general of the federal Emergency Fleet Corporation, "as a token of their respect and esteem." The Fleet Corporation supervised the nation's shipyards during the war.

supplies across the Atlantic. The corporation started slowly and never reached full production during the war. But once it got up to speed after the war, its shipbuilding programs were almost as hard to stop as they had been to start.

Every time the corporation tried to cease producing ships after the war, elected officials, labor groups and shipbuilding executives protested that the nation could not afford the job losses that would result from the closing of shipyards. When Hurley attempted to cancel two million tons of shipbuilding contracts in 1919, Charles Piez, retired director general of the Fleet Corporation, lambasted the idea as a "policy of scuttle" and claimed it would cost more to cancel the contracts than to build the ships. Labor unions also complained bitterly about the cancellations, as did the Shipbuilders of America, which said the planned cancellations, if implemented, "would inevitably result in great financial and industrial disaster to the American shipbuilding industry and its employees."

So the Fleet Corporation kept building steamships until 1920, two years after the war had ended, and the Shipping Board kept entering them in the American Club—hence the huge amount of tonnage entered in the Club as of February 1922.

A Relationship Comes Unglued

The board and the Club got along well at first in a mutually beneficial relationship. But then, like the disintegration of a once-happy marriage, the relationship began to fall apart following the war over a variety of emotionally charged issues.

Most basic was a standoff over the proper role of the Shipping Board in the governance of the Club. In January 1921, the Shipping Board—citing its position as the Club's largest member—asked for representation on its board of directors. But the five directors, all of whom were senior executives of private steamship lines, did not cotton to the idea. They turned down the request, saying it was inappropriate for the Shipping Board, a federal regulatory agency, to have a voice in the policies of a private-sector organization. However, the Shipping Board insisted, and the Club added a sixth director's seat, which the Shipping Board filled with Wilson Keene, a 33-year-old member of its staff.

One year later, in January 1922, the Shipping Board asked for two more seats. This time the Club's directors refused the request in surprisingly harsh language. In doing so, they cited the words of Albert Lasker, a Chicago advertising executive who was now the Shipping Board's chairman. Weeks earlier, Lasker had written in the *Journal of Commerce* that the United States needed a robust private maritime sector and that continued postwar ownership of a large merchant fleet by the government was "like poison ivy in the garden of industry." The directors threw those words back at him, saying that "a sincere carrying-out of Chairman Lasker's declaration should lead the Shipping Board to refrain from taking any larger part in the administration of a private organization, whose facilities, expert knowledge and experience the Shipping Board has found it convenient and expedient to patronize."

LaBoyteaux—ever present behind the scenes and concerned about the Club's success—now stepped in and brokered a compromise. Together with Loines and American Club Chairman Alfred Smith, he met with Lasker and agreed to increase the Club's board from six members to 11, adding two new representatives from the Shipping Board and three from steamship lines.

ABOVE: Albert Lasker, front row left, smiles as President Warren G. Harding shakes hands with baseball legend Babe Ruth in April 1923. Lasker was an influential Chicago advertising executive who led the Shipping Board from 1921 to 1923. He was a friend and confidant of the president.

But other flare-ups between the Shipping Board and the directors of the Club continued, including disagreements over loss claims submitted by the Shipping Board that the Club rejected, saying they were outside the terms of its coverage. In 1922, for instance, the Shipping Board sent a circular to its managing agents instructing them on how to file claims for the cost of cooperage of cargo. The Club interpreted this circular as an attempt by the Shipping Board to circumvent Club rules: claims for the cost of cooperage were allowed only in "extraordinary cases" when cargo was placed in barrels on arriving at its destination to protect against theft. In the view of a majority of the directors, the Shipping Board circular was "inviting owners to make claim against the Association for their ordinary expenses of operation, or that they should transfer to the Association a part of their regular

By December 1922, the Shipping Board owed the American Club $2.3 million, a whopping sum considering that the Club's total assets were less than $7 million.

payrolls for coopers." So the directors issued their own circular countermanding the Shipping Board circular.

To complicate matters further, the Shipping Board was dependent on Congressional appropriations to pay its bills, and Congress rarely made these appropriations on time. As a result, the Shipping Board fell increasingly behind in paying its premiums and assessments. In early 1922, Loines went to Washington to discuss the matter with Shipping Board executives. Returning to New York, he reported to the American Club's directors, "The Shipping Board is expecting an appropriation from Congress to take care of its present and contingent liabilities, and we are led to hope that when this is in hand further payments will be forthcoming."

But no further payments were made, and by December 1922 the Shipping Board owed the Club $2.3 million, a whopping sum considering that the Club's total assets were less than $7 million.

The relationship, which had been so important to both sides just a few years earlier, was now beyond repair. Parties involved in divorce proceedings sometimes say the darnedest things in an attempt to increase their bargaining power and rattle the opposition. On December 8, 1922, Lasker wrote to Smith, the Club's chairman, to announce that the Shipping Board was withdrawing from the Club as of February 20, 1923. However, he upped the ante by claiming that the Shipping Board's membership in the Club was "invalid" because it was "in contravention of Federal Statutes, which in effect limit the authority of any Government establishment to involve the Government in any contract or other obligation for the future payment of money in excess of appropriations for the current fiscal year." Thus, he said, there were "serious legal questions" as to whether the board was required, or ever had been required, to pay its assessments.

Four months of intense negotiations followed, resulting in a complex deal in which the Shipping Board and the Club divvied up the Club's assets and liabilities. The Club released the Shipping Board from all unpaid assessments and, in addition, paid the board $1.2 million. The board, for its part, released the Club from all liability for any unpaid claims on Shipping Board vessels. Going forward, the board self-insured its P&I risks.

But there was no reason to feel sorry for the American Club. Although it handed over $1.2 million to the Shipping Board, it collected an equal amount from the London Club as a return of reinsurance premiums on Shipping Board risks. After netting out the costs and benefits of its settlement with the Shipping Board, the Club entered a $500,000 surplus in its books.

The Shipping Board was happy too. "Any settlement involves mutual concessions," Nathan Smyth, its general counsel, told Congress. "I think that the P&I Association has gone a long way in making concessions and that on the whole the proposed settlement is extremely satisfactory."

However, the story didn't end there. In withdrawing from the Club, the Shipping Board created the United States Protection & Indemnity Agency, Inc., to investigate and settle its P&I claims. It gave the new government-owned agency the power not only to administer Shipping Board claims but also to take on private-sector clients. Moreover, it authorized the agency to found and manage a P&I club in direct competition with the American Club. Although the agency never did serve any private clients or create a club, the mere threat of doing so reflected the edginess between the Shipping Board and the Club in the final months of their relationship.

The Shipping Board owned the United States Protection & Indemnity Agency for six years before selling it in 1929 to Marine Office of America, an underwriting syndicate of American insurance companies, for a modest $10,000.

Perhaps the falling-out of the American Club and the Shipping Board was inevitable. The Club had to answer to all its members and could not allow one member to fall behind in its assessments to the detriment of the others. The Shipping Board, for its part, had to answer to Congress, which was slow to provide funding and often second-guessed its decisions, including its decision to buy P&I cover. The alliance between the Club and the board had worked well during the war, but the time had come for the two parties to go their separate ways.

The Cream of the American-Flag Maritime Industry

And so on February 20, 1923, one of the most important and stormiest relationships in the American Club's history came to an end—a relationship that had seen the Club serve the P&I insurance needs of the government during the war; soar to early heights of entered tonnage; and, in the process, become well established in the domestic P&I market.

Following the Shipping Board's withdrawal, the American Club moved forward as a much smaller organization: it now had 1.7 million entered tons versus 9.4 million a year earlier. Nonetheless, it was financially sound. And its membership continued to comprise the cream of the American-flag maritime industry, including American-Hawaiian Steamship Company, American President Lines, Grace Line, Ward Line and the steamship division of Shell Company of California (a predecessor of Shell Oil). As the *Wall Street Journal* noted in December 1922, "About 90 percent of privately owned American ships are in the association." ≡


BROOKLYN DAILY EAGLE

Why Uncle Sam's Ships Should Sail, Leading Them All, In the Seven Seas

THE SANTA MARIA

Billions in World Trade Before Us, and to Win Them We've Got the Men, Money and Ships, But Cheap Carrying Charges Handicap Us

THE MINNEAPOLIS

LEFT: As this headline indicates, the US owned a huge fleet of World War I merchant ships after the war but didn't know what to do with them. American-flag vessels, with their high operating costs, struggled to compete with other flags. As a result, many American ships were laid up after the war and never went back to sea.

CHAPTER THREE

The Years Between the World Wars

The revival of the American-flag merchant fleet during World War I was short-lived. Once the war ended, the United States slipped back to its earlier status as a lesser maritime power, trailing in the wake of the global leader, Great Britain.

Edward Hurley of the Shipping Board had longed for a different outcome. Noting that the Emergency Fleet Corporation had launched more than 2,300 steamships between 1917 and 1920, he urged maritime companies in the United States to buy them and establish an American merchant marine second to none in the world. "The Great War has left in our hands the nucleus of a large merchant fleet with which to reestablish our flag upon the seas," he wrote in 1920. His hopes, however, were quickly dashed.

PRECEDING PAGES: Passengers enjoy an Alaskan cruise in the 1920s. A man sits on the railing in an era when safety rules were more relaxed.

ABOVE: Charles Schwab, left, president of Bethlehem Steel Company, served as director general of the Emergency Fleet Corporation in 1918 while Edward Hurley, right, former president of Standard Pneumatic Tool Company, was chairman of the Shipping Board from 1917 to 1919.

BELOW: Hog Island kept producing after the war had ended, resulting in a postwar glut of merchant vessels.

To begin with, the war was followed by a worldwide glut of steamships, resulting in depressed cargo rates and low industry profits. At the depth of the industry's problems in 1921, nearly half the oceangoing tonnage in the world was laid up for lack of cargo.

Even when conditions improved, American-flag vessels, with their high operating costs, struggled to compete with other flags. Robert Dollar, president of Dollar Steamship Company, summed up his frustration when he wrote in 1921, "If other nations are paying their sailors $20 a month and the American wage is $50 a month, and the government wishes to keep this scale of wage, then let the government pay to every American sailor the extra $30 a month."

Given these circumstances, few American companies bought ships, and the Shipping Board continued to own a majority of the US commercial fleet well after the war was over. As of June 1921, the American-flag merchant navy totaled 27.5 million deadweight tons, of which 61 percent belonged to the Shipping Board. What to do with all this government tonnage became a matter of spirited debate.

Industry groups such as the American Marine Congress urged the board to sell as many of its steamships as it could, scrap the rest and get out of the maritime business as quickly as possible. But the board said that doing so was "unthinkable" because it would deny the United States the chance to become a global maritime power. The board did not have the resources to operate its steamships, so it chartered the cream of its fleet to American companies and guaranteed those companies against losses.

This strategy saved many steamships from destruction but was a financial disaster. In 1924, the cargo vessels owned by the Shipping Board lost an average of $25,000 per voyage. "No censure is implied in the statement that Americans cannot be proud of that sort of a merchant marine, even if they are able to afford it," the *New York Times* wrote. Despite criticism, the Shipping Board continued in the maritime business, and continued to lose money, until the 1930s, when it finally sold or scrapped the last of its World War I vessels.

Success for Some, Failure for Others

Some members of the American Club found golden opportunities despite the industry's disarray.

Alaska Steamship Company—which carried passengers and freight between Seattle and ports along the Alaskan coast—enjoyed a wonderful decade of profitability and growth in the 1920s, aided by the 1920 Jones Act. This act required that all goods and passengers transported by water between US ports be carried in American-flag ships, a requirement that forced the company's two main competitors, both Canadian, out of the Alaskan market. The company nearly doubled the size of its fleet during the decade by acquiring six new steamships.

Moore & McCormack was another winner in the scramble to survive and grow. It had been founded in 1913 by two 33-year-old friends, Albert Moore and Emmet McCormack, who began with a few thousand dollars and one chartered ship. They were risk takers who believed deeply in the future of global trade. After World War I, unlike many other steamship companies, Moore & McCormack chartered and later purchased steamers from the Shipping Board and used them profitably on international routes—to Scandinavian ports beginning in 1918, to South America in 1919, to India in 1921 and to the Soviet Union in 1928. Its ships were the first American-flag vessels to visit Leningrad, delivering US-made industrial equipment and returning laden with Russian furs, caviar, lumber and chemicals—prompting some in Congress to complain that the company was doing business with a communist dictatorship. Robert Lee, the company's executive vice president, shot back, "If the United States and the rest of the world want to destroy the Russian government by an economic embargo, let them do it honestly and not resort to foolish subterfuge. Above all, I hope our government will not make the stupid blunder of simply driving this Russian trade into the hands of foreign competitors."

But many other American Club members did not fare nearly so well. In fact, nearly two dozen went bankrupt in the decade after the war. Some collapsed just months after getting started. The French-American Line of New Orleans was founded in July 1919 and joined the Club in May 1920. However, it went out of business so quickly after becoming a

TOP TO BOTTOM: Alaska Steamship Company's *Alaska* is pictured at Taku Glacier. A brochure shows the company's routes. American Scantic Line was owned by the Shipping Board and managed by American Club member Moore & McCormack until 1927, when Moore & McCormack acquired the line.

member that it didn't even get around to paying its entry fees, let alone its assessments. It blamed "the rapid decline in freight rates" for its abrupt demise.

Russell Loines Dies; Jocelyn Evans Succeeds Him as Secretary

In the midst of these developments, the Club suffered an unexpected blow in December 1922 when Russell Loines, its founding secretary, died at age 48 after contracting pneumonia. Loines had devoted himself to the American Club and, together with LaBoyteaux, had been largely responsible for its early success. He left his wife, Katharine, and two young daughters.

With Loines gone, the Club turned to Jocelyn Herle de Grasse Evans, an executive with Johnson & Higgins' Club Department, to succeed him. Evans came from a well-known British family. He was born in 1880 on his parents' estate in Orpington, then a small country village, southeast of London. His father, Sir Francis Evans, first baronet, was co-chairman of the Union Castle Steamship Company and a longtime Liberal Party member of Parliament.

Jocelyn led a varied and interesting life and survived difficult circumstances including illness and the perils of war. After graduating from Harrow and Trinity College, Cambridge, he worked in his father's business. "But his father's sudden death in 1907 changed this, and he went to America to make his career," the *Times* of London wrote. As a younger son, Jocelyn did not succeed to his father's title or inherit the family estate.

Evans and his American-born wife, Blanche, settled in New York, where he became secretary-treasurer of an industrial-products manufacturer. However, serious illness forced him to resign in 1911. The young couple moved in with Blanche's widowed mother in rural upstate New York, where Jocelyn raised and sold Orpington cockerels (an English breed of chicken) while he recovered. They returned to New York City in 1914 when Jocelyn was hired by Johnson & Higgins. But World War I broke out months later, and Jocelyn sailed to Europe to serve his country as an officer in the Royal Welch Fusiliers. The fusiliers endured some of the most brutal fighting of the war; Jocelyn was wounded three times. He sailed back to New York in 1918 after the war was over and rejoined Johnson & Higgins. Jocelyn and Blanche prospered in New York, eventually residing in an elegant Park Avenue apartment with four live-in servants—a lifestyle that was not unusual for those who were successful at Johnson & Higgins in an era when it was one the most profitable brokerage houses in the world.

Evans was, by all accounts, outgoing and upbeat. The *Times* of London said his warm, engaging personality "appealed to old and young alike," while New York's Century Club, to which he belonged, described him as an individual of "great personal charm and culture."

Evans was 42 years old when he was named secretary of the American Club in January 1923. He would need all the charm and skill he could muster to deal with the many thorny challenges facing the Club at that time.

ABOVE: Jocelyn Herle de Grasse Evans, secretary of the Club from 1923 to 1931, came from a prominent British family and served in the Royal Welch Fusiliers during World War I. The Fusiliers were one of the legendary units in the British army and endured some of the most brutal fighting of the war. The name on the cigarette pack above spells "Welsh" correctly, but incorrectly for the Fusiliers, whose official name used the incorrect "Welch"—reputedly because Queen Victoria preferred the incorrect spelling.

Tonnage Losses and Underwriting Discipline

Loines' tenure as secretary (from 1917 to 1922) had been a period of early growth and success for the Club. Evans' tenure (from 1923 to 1931) would see turbulence and change.

The Club was facing a competitive onslaught and loss of tonnage by the time Evans took over. Just one month prior to his becoming secretary, the Shipping Board had announced plans to withdraw all its ships from the Club. Moreover, the British clubs, which had seen many of their US-flag members defect to the American Club during the war, were now winning some of them back by undercutting the Club's rates.

LaBoyteaux found himself in the predicament of leading the firm that managed the American Club, and in that position seeking to ensure the success of the Club and the profitability of the firm's management contract; and at the same time being an insurance broker responsible for negotiating the best possible terms and conditions for his clients. In the former role, he was unhappy that the British clubs were eating into the Club's tonnage. In the latter role, he was delighted that the British clubs were offering his clients inexpensive rates. Putting on his broker's hat, he said, "If someone comes to them [American Club members] and offers to insure them for 56 cents a ton and pays back $1.25 in claims, I say God bless them. Let them do it."

The Club also faced a growing challenge from for-profit insurers. Continental Insurance Company became the Club's first domestic competitor when it entered the P&I market in 1919 through its Marine Office of America affiliate. In a bitter disappointment for the American Club, Ward Line—one of its largest members—shifted some of its coverage to Continental in 1926. Concurrently, Ward Line's CEO, Alfred Smith, who had served as chairman of the American Club since its founding, resigned from the Club's board.

To make matters worse, pricing for marine insurance (including P&I cover) was weak throughout the decade. In 1927, the New York State superintendent of insurance warned that severe competition and low prices were making marine insurance unprofitable for most providers.

The American Club felt the harsh impact of these events, as its entered tonnage dwindled from 1.7 million gross tons in 1923 (immediately after the Shipping Board withdrew) to 1.3 million in 1927.

But as worrisome as this loss of tonnage might have seemed, it was also a testament to the Club's underwriting discipline. As recounted in 1929 by *Fairplay*, a British shipping journal, the Club made a conscious decision during the 1920s to maintain tight underwriting standards and give up tonnage rather than price business too low.

Striking a balance between pricing and volume in a soft insurance market is an age-old quandary for underwriters. Warren Buffett, CEO of Berkshire Hathaway Inc., has spoken repeatedly to the topic in recent years, warning of the necessity "to walk away [from business] if the appropriate premium can't be obtained." The American Club did just that. In 1929, Jocelyn Evans told *Fairplay* that the Club's results for its first five years, from 1917 through 1922, "showed very conclusively that it would be necessary to revise the terms and conditions of insurance of many members" by imposing increased rates of contribution on members with poor loss records and implementing higher deductibles for all members. Some members bolted rather than accept these new terms.

But the screw eventually turned in the Club's favor. Evans said that by 1927 "the foreign underwriters who had underbid the American association discovered that they had acquired American business on a highly unprofitable basis and, therefore, proceeded to increase their rates very extensively."

ABOVE: Marine Office of America was one of several for-profit competitors of the Club.

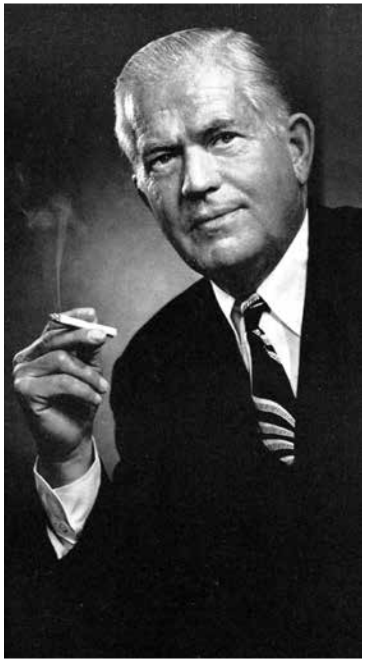
April 1927 was a historic low for the Club. When B. L. Shipping Co. of New York joined that month and entered the 5,030-ton tanker *Manatawny*, it marked the beginning of an upturn—slow and erratic, but nevertheless an upturn—in the Club's tonnage. Entered tonnage has never again, in the 90 years since, been as low as the 1.3 million-ton nadir reached in April 1927.

New Directors; the Creation of Shipowners Claims Bureau

LaBoyteaux was not one to twiddle his thumbs while market conditions deteriorated. He, Evans and the directors worked hard throughout the 1920s and 1930s to generate enthusiasm for the Club and ensure its continued viability.

Johnson & Higgins received a yearly fee from the Club to manage it. The firm had initially made a "very handsome" profit from the arrangement, according to LaBoyteaux. However, as tonnage declined, the Club became a breakeven activity for J&H since its fee was based on entered tonnage. J&H considered closing the Club. "But having gotten ourselves into the business," LaBoyteaux said in 1928, "we do not want to see it ended, because a lot of our clients are members of the organization and they expect us to continue."

Despite its problems, the Club continued to win the support of many in the American-flag industry (it was their club, focused on their needs) and to attract top-flight executives to its board of directors. In an attempt to retain members and rebuild tonnage, the board was expanded three times in the late 1920s to be more inclusive and give more members an active voice in decision making. The Club had eight directors at the beginning of 1927. By the end of



ABOVE: Albert Moore, cofounder and president of Moore & McCormack, served on the Club's board of directors in the 1920s. The Club has attracted many high-level shipping executives to its board.

1929, it had 15. Newly elected directors included Albert Moore, cofounder and president of Moore & McCormack, by then one of the nation's most successful steamship lines, and James Kennedy, general manager of the marine department of Gulf Refining Company, one of the nation's largest oil companies.

Moreover, when Smith resigned from the board, he was succeeded as chairman by another leading figure in the US maritime world—Joseph Tomlinson, vice president and operating manager of American-Hawaiian Steamship Company. Tomlinson, a 30-year industry veteran, was "one of the most competent of American steamship operators," in the words of *Marine Review* magazine.

LaBoyteaux himself joined the board in 1925, reflecting his determination to become more involved with the Club's governance and promote its growth.

In addition, Johnson & Higgins took an important step to open the Club to the clients of other insurance brokers. Membership in the Club had originally been limited to J&H clients, but LaBoyteaux realized this constraint had to be dropped if the Club was to grow.

The change took place in March 1927 when J&H's original 10-year contract to manage the Club expired. Until then, the Club had been managed by the firm's Club Department, but J&H now formed a new wholly owned subsidiary to take on the assignment. The subsidiary was to be called P.&I. Office, Limited. However, the minutes of the March 3 meeting of the Club's directors note, "As there was some doubt as to the propriety of the proposed name, it was the sense of the meeting that the question of the name of the new Corporation should be finally determined by the Chairman of the Association, after further conference with Johnson & Higgins."

One month later, the directors approved the name Shipowners Claims Bureau, Inc., a name that has stuck and is still used today. Evans became president of the new J&H subsidiary (with an incentive contract that awarded him 12.5 percent of its profits) and continued as secretary of the Club.

To drive home the message that J&H's club-management and insurance-brokerage businesses were separate from each other, Shipowners moved out of J&H's offices on Wall Street and rented its own space three blocks away at 104 Pearl Street. One goal was to assure rival brokers that the Club was independent from J&H and they could feel comfortable placing business with it.

As a practical matter, Shipowners and the American Club continued to be associated with J&H in the minds of people in the industry, and relatively few other brokers placed their clients' P&I coverage with the Club. Nonetheless, the American Club was now open to any steamship company regardless of broker affiliation.

Marbles and Banana Peels: Shipowners' San Francisco Office

Shipowners not only had an office in New York but also a branch in San Francisco, led by Emmet Cashin, an admiralty attorney and pioneer World War I navy aviator. He was one of the more colorful and quotable individuals ever associated with Shipowners and the Club. In January 1931, *Pacific Marine Review* published a "one-minute interview" that read in its entirety:

> *Emmet J. Cashin, chief high mogul of the Shipowners Claims Bureau, seemed perturbed. He ran nervous fingers through his curly hair and chewed savagely on an ever-present cigar. (Some*

people claim he uses the same cigar year after year. And some people claim that Wilfred Page [a San Francisco insurance broker] never renews that derby. But I've seen both these ornaments changed.)

"A P&I underwriter," sputtered Emmet, "doesn't mind paying legitimate claims. We realize that if there were no claims the need for our services would cease to exist. But these crooks and tramp seamen that drift from one ship to another, always getting suspicious injuries and threatening suit— sometimes they're repeaters. We have to watch those babies. I've developed an alphabetical file covering all the personal injury cases we ever handled, and when a claim comes in, I check it to see if the claimant has a prior record with us.

"Once in a while we get a tip on these repeaters from an outside source. For several months we've been subscribing to a publication put out by the Railway Claim Agents Association. A couple of weeks ago a claim came into the office from a passenger named Carson, who was alleged to have slipped on a marble on the floor of the dining saloon of one of our vessels and seriously injured his back. He had no prior record with us, but on checking through the railway magazine, I found that on three separate occasions he had put in claims against railway companies for back injuries due to slipping on a banana peel while on a train. The inference was that he carried an assortment of banana peels and marbles around with him to help pay his traveling expenses. The funny thing about it was that he didn't even use an assumed name, but gave the same name and address in all the claims, including the one he made against us."

Needless to say, Shipowners didn't pay the claim.

ABOVE: In 1927, the Club moved out of the offices of Johnson & Higgins and rented its own space on nearby Pearl Street, in one of the buildings behind the elevated tracks in this photo. In addition, J&H formed a new subsidiary, Shipowners Claims Bureau, to manage the Club. These steps were aimed at attracting new members by reinforcing the independence of the Club from J&H's insurance-brokerage activities. The photo was taken in 1936 by Berenice Abbott, a famed chronicler of Manhattan.

Early Development of Loss Prevention Services

In another effort to build tonnage, the Club strengthened its loss prevention services, a key selling point in recruiting and retaining members. LaBoyteaux and others understood that loss prevention was then, as it is now, a vital means for protecting people and property and keeping assessments low. Or as Evans stated in 1929, "The only effective way to reduce insurance costs is to reduce the losses by well-organized preventative measures."

In 1920, the Club hired William P. Kain, an indefatigable former Coast Guard and navy officer, to lead its loss prevention activities. Captain Kain, as the media called him, had graduated from the Coast Guard Academy at the top of his class in 1912 with

ABOVE: In 1920, the Club hired William P. Kain as chief hull and engineer surveyor, heading its loss prevention activities. He is pictured in 1915 when he was a young Coast Guard officer.

BELOW: Safety became a growing concern in all industries, including shipping, in the 1920s and 1930s.

ABOVE: Ira Campbell, one of the nation's top admiralty attorneys, was the Club's longtime general counsel. Here, he prepares to testify at a Senate hearing.

a degree in engineering and had served on a troop transport in the Atlantic during the war. He was 33 years old when he joined the Club as chief hull and engineer surveyor, heading a team of surveyors in New York and San Francisco who inspected members' ships and made safety recommendations

He became a public voice of the Club, giving speeches, testifying at government hearings and constantly spreading the gospel of accident prevention—and, in the process, helping market the Club to prospective members. In 1927, he spoke before a meeting of the marine and navigation section of the National Safety Council. "The entire matter of promoting the safety idea aboard ship, as well as in other lines of industry," he told the gathering, "is one of educating the men and continually keeping the thought before them of eliminating carelessness in carrying out their work."

Ira Campbell, Longtime General Counsel

Ira A. Campbell was another central figure in the early history of the Club. A New York law-firm partner, he served as general counsel of the Club for 34 years from 1924 to 1958 and was a member of its board of directors for nearly four decades from 1927 until his death at age 87 in 1963.

He and LaBoyteaux had first met prior to World War I when they both worked in San Francisco. They became good friends and even invested together in oil and gas deals. LaBoyteaux left San Francisco for New York in 1916 to become president of J&H, and Campbell left two years later for Washington, D.C., to become admiralty counsel to the Shipping Board. In 1919, the two friends were reunited when Campbell moved to New York to join Kirlin, Woolsey & Hickox as a partner. He got marquee billing when the firm changed its name to Kirlin, Woolsey, Campbell, Hickox & Keating upon his arrival.

Campbell was quiet, reserved and "very smart," according to Richard H. Brown Jr., a retired Kirlin partner who was the Club's general counsel from 1982 to 2002. He had a topflight roster of law clients and was esteemed for his deep knowledge of admiralty law and dedication to his client's interests. At the same time, he was blunt in his opinions, as any good lawyer should be, and sometimes knocked heads with clients. His largest client was Standard Oil Company of New Jersey (Jersey Standard), one of the biggest corporations in the world. "I've heard the story, I don't know whether it's true or not," Brown says, "that he got into an argument with some of the people at Standard Oil at their New York office and stamped out, saying he refused to represent them anymore, which you cannot imagine anyone doing today. And they were begging him to come back and reconsider, which he did."

An Important New Member

In 1928, as the Club was seeking to add more tonnage, LaBoyteaux told a Congressional hearing, "Not only is the American Association open to all American shipowners, but we are anxious to have them. We would love to have them. We are trying to get them. We are working our heads off to get them."

A breakthrough came weeks later when Standard Oil of New Jersey joined the Club, entering 452,345 tons and immediately becoming the largest member, representing nearly one-quarter of the Club's total entered tonnage. Until then, Jersey Standard had self-insured its P&I risks. Campbell, with his connections to both the company and the Club, may have influenced Jersey Standard's decision.

LaBoyteaux was thrilled to welcome Jersey Standard. There were no vacancies on the Club's board of directors at that time, so he resigned his seat to allow a representative of the company to take his place. Although he was no longer a director, he "expressed his willingness to continue to attend board meetings and give his advice," according to the minutes of the April 1928 meeting. With his take-charge personality, it is hard to imagine that he would have walked away and stopped giving advice.

Jersey Standard chose Robert F. Hand, assistant manager of its marine department, to fill the seat vacated by LaBoyteaux. Hand was a good fit because he and Jersey Standard were known for their emphasis on loss prevention, an important issue to the Club and its members. Indeed, he and Captain Kain were comrades in arms in the battle for better crew training, accident prevention and safety at sea: in 1926, Kain was elected chairman of the marine and navigation section of the National Safety Council, an important industrial, transportation and consumer safety group, and Hand was elected vice-chairman.

Hand continued as a director of the Club for 12 years and was board chairman from 1936 to 1940, when he retired because of ill health. Jersey Standard remained in the Club for two more years until 1942, when it withdrew to resume its prior practice of self-insurance.

Despite its decision to leave, Jersey Standard was a backbone of the Club from 1928 to 1942 and, as its largest member by far during the period, provided a much-needed infusion of tonnage in the lean years between the two world wars.

LaBoyteaux told a Congressional committee, "Not only is the American Association open to all American shipowners, but we are anxious to have them. We would love to have them. We are trying to get them. We are working our heads off to get them."

ABOVE LEFT: Standard Oil Company of New Jersey, the largest member of the Club from 1928 through 1942, was headquartered at 26 Broadway in Lower Manhattan. The Club insured tankers, barges and workboats for the company.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CHAPTER FOUR

Surviving Prohibition and the Great Depression

The American Club's early years coincided with Prohibition, a strange interlude in the history of the United States, the maritime industry and the Club. At a time when the Club was trying to add tonnage, Prohibition undercut those efforts and put "dry" American-flag passenger vessels at a competitive disadvantage to "wet" foreign-flag ships, hindering the American industry's ability to grow.

Prohibition was mandated by the Eighteenth Amendment, which barred "the manufacture, sale or transportation of intoxicating liquors" in the United States and its territories. The companion Volstead Act specified that any beverage with an alcoholic content of one-half of one percent or more was "intoxicating" and therefore illegal. The new law, which took effect in January 1920, contained many contradictions and exceptions.

PRECEDING PAGES: A Coast Guard boat prowls at night, on the lookout for bootleggers seeking to bring liquor ashore. Prohibition lasted in the US from 1920 to 1933.

RIGHT: Patrons at a New York bar enjoy their last drink before the Wartime Prohibition Act takes effect at midnight on June 30, 1919. Wartime Prohibition was intended as a temporary measure to save grain for the war effort even though, in fact, Congress did not pass it until after World War I was over. It continued in force until January 1920, when the Volstead Act took effect and "permanent" Prohibition began.

FAR RIGHT: New York City Deputy Police Commissioner John A. Leach, far right, watches as agents pour beer down a sewer. Prohibition created many problems for the steamship industry, including uncertainty as to whether American-flag vessels could serve alcohol outside US territorial waters.

For instance, although selling alcohol was banned, drinking it was not. Recognizing this distinction, some individuals and private clubs stocked up in advance of the law's effective date. According to the Ken Burns documentary *Prohibition,* the Yale Club in New York bought enough wine and liquor to serve its members without interruption throughout the Prohibition era.

Did the new law apply to American-flag ships at sea? The answer was unclear. The Shipping Board—which was still a member of the Club—initially allowed its passenger vessels to serve liquor in international waters, then said no, then said yes, then no again, all within the space of three years.

Moreover, some private-sector steamship lines served alcohol; others played it safe and didn't. American Club member Grace Line, fearful of losing customers, announced that all its ships "will continue to carry alcoholic refreshments as before" on international routes. The stakes were high: the *Chicago Tribune* said the financial success of ocean liners depended on the patronage of well-to-do passengers and predicted that few of them would travel on American vessels that were dry.

The question of American-flag ships and liquor was largely ignored by the government and the media until 1922, when it burst into the news at the instigation of August Busch, president of Anheuser-Busch Company. In May of that year, he sailed to Europe on a Shipping Board steamer and discovered that passengers could purchase beer, wine and whisky in the dining rooms and lounges. He was furious that the government had forced his company to close its breweries yet was allowing alcohol to be served on American ships. In an open letter to President Harding, he called the Shipping Board "the biggest bootlegger in the world" and said "the United States government buys German beer to sell on its ships and will not let American beer be made."

ABOVE: Brewer August Busch traveled on a Shipping Board steamer and discovered, to his great surprise, that passengers could purchase wine, beer and whisky. He called the Shipping Board "the biggest bootlegger of them all" and said the government was being two-faced by closing his breweries while selling beer on its ships.

ABOVE RIGHT: US Customs agents pour beer overboard from the French liner *Paris*. In the early years of Prohibition, foreign-flag vessels were not allowed to carry alcoholic beverages in US waters, although the rules were later changed.

BELOW RIGHT: United American Lines transferred its fleet to Panamanian registry and left the American Club to escape Prohibition.

Taking their cue from Busch, many newspapers chastised the government for its supposed double standard. "It is a scandal, an advertisement of national hypocrisy, to forbid rum on land and permit it on the sea," the *New York Times* declared. Under pressure to clarify the government's position, US Attorney General Harry Daugherty ruled in October 1922 that American-flag ships had to be dry wherever they sailed.

Just as the *Chicago Tribune* had predicted, cancellations started pouring in for reservations on steamships that were now purged of all libations with alcoholic content—and the American Club paid the consequences: United American Lines transferred its fleet to Panamanian registry to escape Daugherty's ruling and, as a result, left the Club for a British club since the American Club did not then insure foreign-flag vessels. Several other members of the Club announced plans to switch flags, but were blocked by federal regulators.

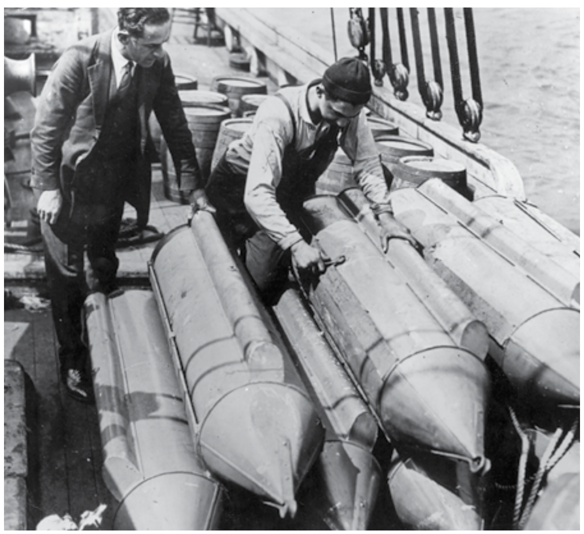
This messy situation was finally resolved by the US Supreme Court. In 1923, it reversed Daugherty and allowed American vessels to serve alcohol in international waters. However, it reaffirmed that no ship, American or foreign, could have liquor aboard within the US three-mile limit. This latter ruling caused its own problems: ships were forced to dump their liquor overboard as they approached the three-mile limit rather than violate US law. Some companies stationed supply ships just outside the three-mile limit to restock ocean liners as they left American waters on their way to foreign ports.

The British, who dominated transatlantic passenger traffic, were especially unhappy. Thomas Royden, chairman of Cunard Line, said Prohibition and the complex rules surrounding it made America

"ridiculous in the eyes of the world," while James Wadsworth, a US Senator who opposed Prohibition, wrote, "How the world must despise us for making such asses of ourselves." The government finally relented and modified its rules to allow steamships to retain their stocks of alcohol within the three-mile limit so long as those stocks were placed under lock and key out of the reach of passengers and crew.

Then there was the touchy matter of liquor smuggling by crew members of steamships, including steamships entered in the Club. To be fair, bootlegging was common throughout US society, not just in the maritime industry.

The Club's attorneys spent many hours in the 1920s and early 1930s dealing with the consequences of smuggling by crews. In December 1920, US Customs Service agents in Charleston, South Carolina, boarded the cargo ship *Cotopaxi*—owned by American Club member Clinchfield Navigation Company—shortly after she had arrived from Havana and discovered 10 cases of whisky, wine and cognac. They seized the ship on charges of transporting liquor in violation of federal law and placed her under $500,000 bond. The Club had a financial stake because it insured its members against liabilities arising from smuggling by crews. However, the master denied any knowledge of the stash, and lawyers for the Club were able to get the charges dismissed and have the ship released on the basis of lack of evidence against the officers of the vessel.



ABOVE: **US Senator James Wadsworth was an outspoken opponent of Prohibition, saying, "How the world must despise us for making such asses of ourselves." He is pictured in 1925 on the cover of *Time* magazine.**

RIGHT: **Customs officials examine whisky-filled steel "torpedoes" towed by the schooner *Rosie*. Bootleggers used many schemes and ruses to smuggle alcohol into the US.**

Following this incident, the Club urged its members to redouble their efforts to comply with the Volstead Act and suggested they post notices on their steamships "drawing the attention of the officers and crew to the severe penalties involved in the violation of the act."

But Americans kept drinking and seamen kept smuggling, and lawyers for the Club kept dealing with the consequences. In 1925, in one of the more dramatic episodes, Customs agents waited through the night in a speedboat in New York's East River, watching the *Orizaba*—which had just arrived from Havana—on a tip that liquor was aboard. Sure enough, a launch pulled up next to the ship just before dawn and began taking on cases of Bacardi rum.

When the launch finished loading her illicit cargo and pulled away, federal agents in the speedboat gave chase up the East River amid a flurry of gunshots. "The agents said they fired 40 shots at the launch and that at least 15 were fired back at them," the *New York Sun* reported. Fortunately, no one was hit as bullets whizzed through the air. The launch crashed into a pier, whereupon three bootleggers jumped out and escaped into the streets of New York.

Federal authorities seized the launch and the rum and threatened to seize the *Orizaba,* which was owned by American Club member Ward Line. The Club instructed Ira Campbell, its general counsel, to "do whatever might be necessary to protect the interests of the steamer and the P&I Association." Campbell attended a meeting with federal attorneys, the New York City chief of police and Ward Line representatives at which an assistant US attorney recommended that the government begin forfeiture proceedings to take possession of the 7,600-ton ship, one of Ward Line's largest, valued at $1.5 million.

A central point under the law was whether the ship's officers knew about the contraband and were aware of its transfer to the launch. When the government was unable to prove either point, Campbell worked out a deal in which the master was fined $712 and the ship was returned to her owner with no further penalty. It was one of several close calls in which ships entered in the American Club were threatened with government confiscation during the Prohibition era.

Prohibition was repealed in 1933, bringing to a close a lengthy nightmare for the steamship industry and the American Club. A headline in the *New York Times* summed up the feelings of many when it said, "Passenger Lines Elated by Repeal: Era of Annoyance Ends."

Henry I. Bernard Becomes Secretary

Meanwhile, Jocelyn Evans, who had been secretary of the American Club since 1923, died in August 1931 following a brief illness. He was 50 years old and left behind his wife, Blanche.

LaBoyteaux selected Henry I. Bernard, 32, to succeed Evans as secretary of the Club and president of Shipowners Claims Bureau, the Club's manager. Unlike Loines and Evans, his predecessors, who had come from socially prominent families and had graduated from prestigious universities, Bernard grew up in humble circumstances. He was born in New York in 1899, the son of Norwegian immigrants, and left school after eighth grade to work. He joined Johnson & Higgins in 1916 as a clerk in the Club

ABOVE LEFT: Passengers relax on the recreation deck of the *Orizaba*, owned by American Club member Ward Line. In 1925, federal agents threatened to seize the ship when some of her crew became involved in smuggling rum from Cuba to New York. Ira Campbell, the Club's general counsel, intervened and brokered a deal in which Ward Line paid a fine.

ABOVE RIGHT: The *Orizaba* was requisitioned by the War Shipping Administration during World War II for use as a troop transport.

The American Club survived the Great Depression of the 1930s even as many of its members struggled with fewer passengers, less cargo, high costs, declining prices, labor unrest and changing government policies.

Department and became treasurer of Shipowners at its founding in 1927.

LaBoyteaux was not fazed in the least by Bernard's lack of a high school degree. After all, his own background was more like that of Bernard than that of Loines or Evans, and he judged people by their ability and work ethic. Moreover, back then educational credentials were far less important to advancement in a career than they are today. In 1930, only 19 percent of adult Americans were high school graduates and only 4 percent were college graduates.

Bernard was a quick learner and became an authority in the field of P&I coverage. His 1945 book, *Marine Protection and Indemnity Insurance,* based on a series of lectures he gave at the Merchant Marine Academy, was a standard reference for many years. In addition, he was the only secretary in the history of the American Club to be elected to partnership at parent company Johnson & Higgins. "Henry Bernard was very influential," Thomas J. McGowan, a retired secretary of the Club, says. "But there were limits to his authority. That was in the days when the secretary couldn't even go on vacation without approval from somebody at Johnson & Higgins. That's how closely J&H controlled the affairs of the American Club back then."

After Bernard retired from Johnson & Higgins in 1955, his life took an entirely different turn when he became a justice of the peace in rural Killingworth, Connecticut, rounding out a remarkably successful career.

BELOW: As the Depression took hold, many cargo vessels were laid up due to reduced demand for shipping.

The Great Depression of the 1930s

By the time Bernard took over as secretary, the stock market had crashed and the Great Depression was under way. The American Club survived the economic collapse of the 1930s —a noteworthy accomplishment in a period when many other financial institutions closed their doors forever—even as many of its members struggled with fewer passengers, less cargo, high costs, declining prices, labor unrest and changing government policies.

Tonnage entered in the American Club held fairly steady—never falling below 1.8 million and never exceeding 2.2 million gross tons during the 1930s, with relatively little member turnover, prompting LaBoyteaux to comment that the Club's members were "loyally supporting" in the face of the most dire economic conditions in history.

The ups and downs and ups of American Export Lines (also known as Export Steamship Corporation) highlight some of the changes that took place in the maritime industry in the 1920s and 1930s, including the growing role of government subsidies. Nearly every oceangoing American-flag steamship company received a stream of federal subsidies during the interwar years, primarily through contracts to carry mail.

American Export Lines was organized in 1919 by the Shipping Board and was purchased the following year by Henry Herbermann, a 42-year-old entrepreneur. He grew the company aggressively, and by 1926 it was the dominant American-flag cargo line between the United States and the Mediterranean. Herbermann attributed this success to reliable scheduling. "The Export Steamship Corporation has been exceptionally fortunate in having been able to maintain its sailing every five days," he said, "and we are gratified to state that in recognition of this regularity of service the shippers have expressed their appreciation by giving us a good volume of freight."

But the company also benefited from a generous dose of federal aid. In 1926, the Shipping Board awarded American Export a $100,000-a-year mail contract, raising the amount to $200,000 in 1927. In 1928, Congress passed the Merchant Marine Act, giving a further boost to mail payments. *The Nautical Gazette* reported enthusiastically that American Export derived "the full benefit of this splendid piece of legislation." Indeed, the value of the company's contract now jumped to $1 million a year even though its ships continued to carry the same amount of mail as before.

In 1928, the company joined the American Club for the first time. It left in 1930 to purchase P&I coverage from American Insurance Company of Newark, New Jersey, but would return a few years later.

Then came the Depression and its devastating impact on the maritime industry. Earnings plummeted, and some of the best-known steamship operators of the time, including American Club members Dollar Steamship Company and Munson Line, went out of business.

To make matters worse, in 1933 a Senate committee launched an investigation into mail subsidies and found the system to be riddled with excessive payments and corruption. The committee took dead aim at American Export, claiming it had received an astounding $405,696,302 of subsidies from 1920 through 1932 in the form of overly generous mail contracts, below-market interest rates on loans and cheap prices for the ships it bought.

Called to testify, Herbermann was grilled about everything from whether he had bribed Shipping Board officials (he said he had not) to the amount of his personal income ($332,326 in 1929) to whether his company's ships had violated Prohibition. To the latter question he replied, "I instructed all our people that I did not want any booze smuggling. If they wanted any booze, I would buy it from the bootleggers and pay for it, which I did."

ABOVE: Henry Herbermann, president of American Export Lines, testifies at a Senate hearing in 1933 about his company's federal contract to carry mail. Senators pilloried shipping executives for their alleged misuse of mail-contract subsidies.

BELOW: The names of American Export Lines' ships, including the *Exemplar*, all began with "Ex"—"for the sake of uniformity," Herbermann said.

ABOVE: President Franklin D. Roosevelt—who loved to sail and had been assistant secretary of the Navy during World War I—was an ardent supporter of the merchant marine. In 1936, at his urging, Congress approved a new program of construction loans and operating subsidies for maritime companies. Roosevelt said the program was necessary to match "the liberal subsidies that many foreign governments provide for their shipping."

Dozens of other maritime executives were also put through the wringer by the committee. It was a difficult time for the industry. Not only was it struggling to get by financially, but it was now under attack from some of the very same senators who had approved the Merchant Marine Act and other subsidy laws of the 1920s.

As the Depression worsened, American Export fell behind on its debt payments. In 1934, it was taken over by creditors, who ousted Herbermann and sold the company to an investment group led by Lehman Brothers. Herbermann, who had been the sole owner of the company since 1920 and had built it into one of America's top cargo lines, lost his entire investment. The new owners pruned operations and trimmed expenses, setting the stage for a turnaround later in the decade.

To rescue what was left of the American fleet, Congress passed the Merchant Marine Act of 1936, which included—at the urging of President Roosevelt—a new program of construction loans and direct operating subsidies (as opposed to the hidden subsidies in mail contracts). Roosevelt maintained that subsidies were necessary to match "the liberal subsidies that many foreign governments provide for their shipping" and keep the American merchant fleet alive.

The 1936 legislation also created the Maritime Commission to replace the Shipping Board. The commission's task was "to put new life into merchant shipping," the Associated Press remarked.

In 1938, recognizing that the Depression was ending and the gates of economic opportunity were opening anew, American Export Lines borrowed $10 million from the Maritime Commission to build four new ships: the *Examiner, Exchange, Exchequer* and *Exchester.* (The names of all the company's ships began with "Ex"—"for the sake of uniformity," Herbermann once explained.) By 1942, it had built 10 more, including the *Exanthia, Exceller* and *Exiria.*

Some steamship lines didn't make it through the Depression. American Export not only survived but sprang back to life and prospered, earning a record $8.8 million in 1940.

Along the way, it returned to the American Club in 1937 and remained one of the largest members for nearly three decades before leaving in 1964 when it merged with Isbrandtsen Company.

Claims Costs Turn Higher

As if a tough economy and a Senate investigation were not bad enough, the industry was also slammed by higher claims costs. One might expect that the number and cost of claims would have gone down during the Depression, a period of sharply lower economic activity and deflation. Yet the opposite occurred. The American Club's paid and pending claims rose from $333,000 in 1932 to $1.1 million in 1938 even though the amount of tonnage insured by the Club remained relatively flat.

Some people complain today about large court awards. In fact, people were already complaining in the 1930s, if not earlier. In a memo to the board of directors in 1939, Henry Bernard blamed the 1932–1938 tripling of the Club's claims costs on new laws expanding the liabilities of shipowners and the "socialist theories" of courts. "Awards by courts and juries in personal injury cases are now at new high levels, creating a situation where settlement is preferable to the risk of a trial, even in cases where it appears that no legal liability exists," he wrote. He cited the "alleged injury" of a seaman named Shelton who said he had slipped and fallen on the deck of his ship, causing pain and suffering that did not go away. Shelton's lawyer demanded a settlement of $30,000. The Club offered $21,000. The lawyer rejected the offer, and the case went to trial. To nearly everyone's surprise, a jury awarded $42,000.

There is "little room for doubt that the future claims cost of the members and of the Association will continue upward," Bernard said presciently.

The Intricacies of Reinsurance

Reinsurance was another nettlesome issue. Negotiations with the Club's reinsurers were handled by the secretary, and in some cases by LaBoyteaux, who took a personal interest in the topic as he did in virtually everything related to the Club.

At its founding in 1917, the Club purchased reinsurance from the London Club. In 1924, when the two parties were unable to agree on renewal terms, the Club switched to Lloyd's of London—but not without taking some heat from elected officials in Washington. Asked at a 1928 Congressional hearing why the Club, an American organization serving American steamship lines, did not buy its reinsurance from American companies, LaBoyteaux—who was always ready with a snappy answer—replied, "Because they think it is too risky. I think it is pretty risky myself."

However, the Club *did* switch to American underwriters for one year in 1931, when it placed its coverage with Appleton & Cox, a New York-based agency that wrote reinsurance on behalf of a consortium of companies. But for whatever reason, that didn't work out, and the Club returned to Lloyd's in 1932.

Meanwhile, the Club faced ever-rising reinsurance costs. In 1926, Jocelyn Evans returned from a visit to London and reported that reinsurance markets there were "considerably perturbed over the increasing cost of P&I claims." The result: the Club had to pay more for its reinsurance.

In 1929, he warned, "It is going to be increasingly difficult to obtain satisfactory reinsurance, particularly in view of the recent disasters here in the last week," including the sinking of the *San Juan*

Court awards and claims costs increased sharply in the 1930s. The Club's paid and pending claims rose from $333,000 in 1932 to $1.1 million in 1938 even though the amount of tonnage insured by the Club remained relatively flat.

ABOVE: Underwriters at Lloyd's of London examine index books in 1924, the year in which the Club began purchasing reinsurance from Lloyd's.

and the *Dorothy,* both of which were insured by the American Club. Again, the Club's reinsurance costs went up—and kept going up for the next decade. Between 1933 and 1939, the Club's reinsurance costs nearly quadrupled from $40,000 to $152,000.

The Club placed its reinsurance through Johnson & Higgins, which in turn placed it in London through a British brokerage firm, Willis, Faber & Co. In August 1935, Willis Faber notified the Club that its reinsurance premium was being increased immediately, even though the policy did not expire for six months, due to newly enacted changes to the US Limitation of Liability Act which expanded the financial liabilities of American shipowners for injuries and deaths.

LaBoyteaux, always the Club's biggest champion, took charge. In a letter to his friend Raymond Dumas, managing director of Willis Faber, LaBoyteaux said the American Club, unlike the British clubs, had not made any additional financial calls on its members in response to the legislative change. "The Management of the American Association feels, and in this we agree with them," he wrote, "that in its practical operation the recent amendment to the Limitation of Liability Act will not work out anything like as bad as the English clubs and the American stock companies seem to fear, and that in fact the amended law is just about the same, if not a little less onerous than the English Limitations Statute."

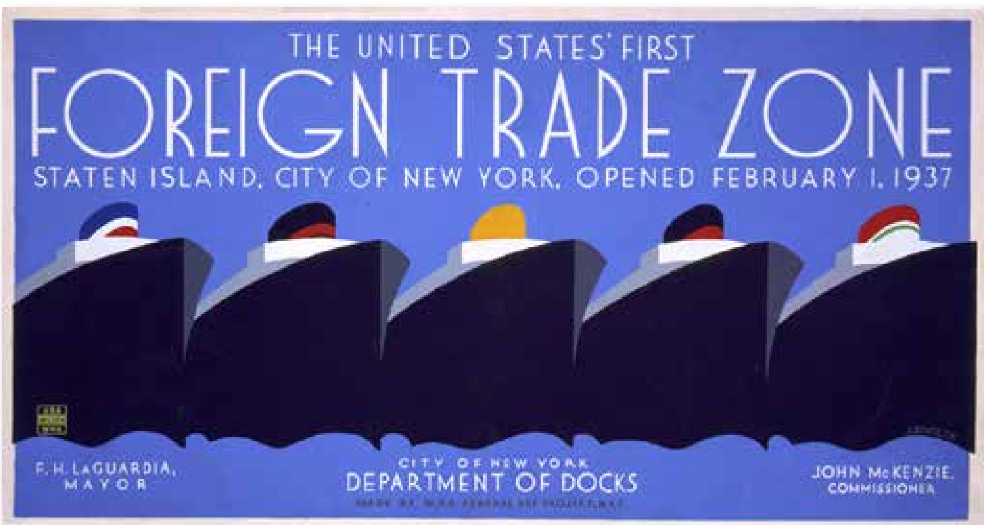
He then poured it on. "The American Club," he said, "is therefore entirely out of sympathy with the attitude of the stock companies and the English clubs in demanding substantial increases in rates, which they [The American Club] can only understand on the theory that the stock companies and the English clubs are capitalizing on the situation to remedy past mistakes."

He added, "Had the law been amended to considerably reduce shipowners' liability, reinsurers certainly would not have reduced the premium in the middle of the year. Why, then, should they expect the original insurer to pay an additional premium to them in the middle of the year because the right to the shipowner to limit has been somewhat abridged?"

LaBoyteaux, not Britannia, ruled the waves: the reinsurers in London, not wanting to offend the most powerful marine insurance broker in America, postponed the Club's rate increase until the next renewal.

War on the Horizon, and Reinsurance Turmoil

Despite subsidies, the position of the United States in the maritime industry deteriorated badly in the years between the two world wars. In 1920, the



BELOW: **The first foreign, or free, trade zone in the US was established in 1937 in response to a federal law aimed at boosting foreign trade. Companies operating in such zones can import, store, process and reship goods without paying tariffs or duties. The new Staten Island zone lasted only five years; the site was taken over by the military during World War II. But the zones blossomed after the war and there are nearly 180 across the US today.**

American-flag fleet accounted for 23 percent of world tonnage. By 1938, it represented just 13 percent—grim news for the American Club, which in those days insured American tonnage only.

The fleets of many other seafaring nations were modernized and grew. The US fleet aged and became less competitive for the simple reason that US construction and operating costs were the highest in the world and government subsidies could not overcome this handicap. Joseph P. Kennedy, the first chairman of the Maritime Commission and father of future US President John F. Kennedy, peeved many American shipowners, who were trying their best to succeed in a difficult business, when he told a British audience in 1938, "We know only too well that shipping is an uneconomic industry in the United States and that barring some revolution in method or cost it will remain so."

Regardless of costs, the industry began to recover as the Depression ended and war loomed on the horizon. The US fleet grew a little in 1939 and some more in 1940 and then a great deal in 1941 in response to the emerging needs of the military. Moreover, after the United States entered World War II in December 1941, tonnage entered in the American Club climbed quickly as the Club was called upon to insure vessels in the government merchant fleet, just as it had done during World War I.

However, even before the United States went to war, an unforeseen court decision would throw the Club's reinsurance programs into turmoil.

LEFT: The US Maritime Commission was formed in 1936 in an attempt to infuse new life into the merchant marine, with Joseph P. Kennedy, center, as its chairman. Here, he meets with the four other commissioners. Months later, he angered many shipowners when he said, "We know only too well that shipping is an uneconomic industry in the United States and that barring some revolution in method or cost it will remain so."


SS PATRICK H

CHAPTER FIVE

A Reinsurance Crisis, and Insuring the World War II Merchant Fleet

One of the greatest catastrophes in US maritime history took place on September 8, 1934, when the passenger liner *Morro Castle*, returning to New York from Havana, caught fire off the New Jersey coast. The ship was burned to a charred hulk, and more than 130 passengers and crew members perished.

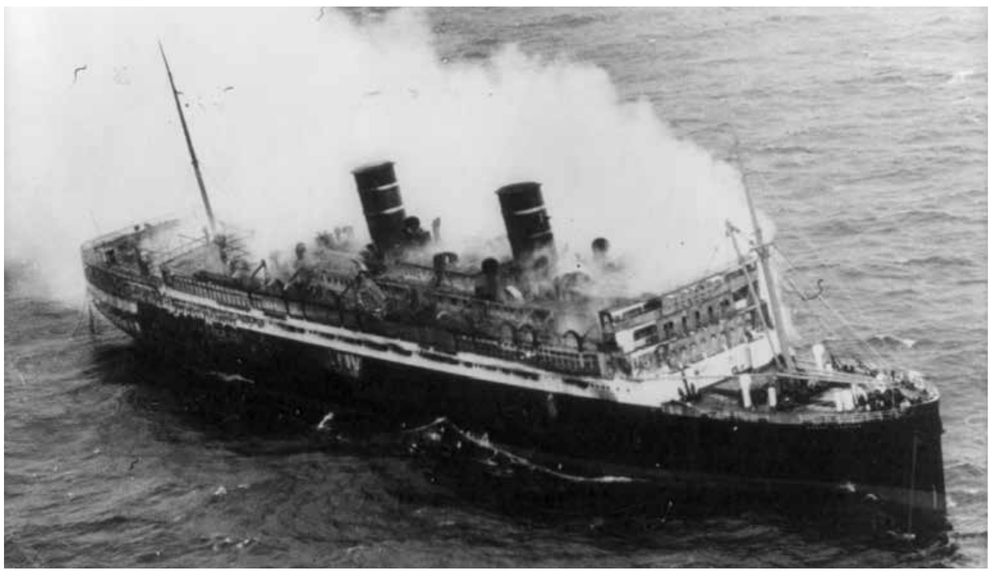
The American Club did not insure the *Morro Castle*. Nonetheless, the Club was swept into the aftermath of the tragedy and lost its reinsurance for reasons related to the disaster. Moreover, the *Morro Castle* accident raised critical questions as to the circumstances under which a P&I insurer might allege negligence to deny payment of a claim. Still further, it resulted in an important change in one of the basic clauses in P&I club rules, a change led by the American Club.

PRECEDING PAGES: American merchant vessels often traveled in convoys during World War II to reduce their vulnerability to attacks by U-boats and surface raiders.

BELOW: A devastating fire on the *Morro Castle* in 1934 led indirectly to a reinsurance crisis for the American Club.

For all these reasons, the *Morro Castle* tragedy was a key transitional event in the history of P&I insurance and the American Club.

The *Morro Castle* was owned by Ward Line, which had been a founding member of the American Club in 1917 but had shifted most of its P&I cover to Continental Insurance Company by 1930. Following the accident, Ward Line settled many of the claims for deaths and injuries but Continental refused to indemnify the settlements. (P&I cover is sometimes referred to as "pay first" or "pay to be paid" insurance. The insured must first pay a claim from its own funds and is then reimbursed, or indemnified, by the insurer. This rule originated with the earliest clubs—and has been adopted by many for-profit P&I insurers as well—and is intended to prevent members from receiving a payment from a club and failing to pass it along to the claimant. It also recognizes that P&I clubs are mutual organizations in which members are dependent on each other and on the assurance that every claim submitted by each member is legitimate.)



In refusing to reimburse the claims, Continental cited a "privity" clause in its insurance contract and said Ward Line had violated the clause. The clause stated, "The Assurers shall not be liable to the Assured for any loss, damage, or expense to which the Assured, or the managing officers of his organization are privy, or which arises from his or their act or neglect." The dispute between Ward Line and Continental centered on the meaning of that clause.

"Privity in English law means more than simple negligence," American Club Secretary Joe Hughes points out. "It means a shipowner's actual, or at least implied, knowledge of a ship's condition or other circumstances which could give rise to a claim."

Privity clauses had been included in P&I contracts "from time immemorial," W. H. LaBoyteaux wrote in 1941, but had rarely been invoked. Indeed, he said, they had traditionally been enforced only when steamship owners "willfully tolerated conditions so dangerous as to practically amount to moral turpitude." He even told J&H clients that the clauses were "innocuous," but retracted that opinion in light of the insurance fallout from the *Morro Castle* disaster.

Continental Insurance cited a long list of ways in which, it alleged, the owners of the *Morro Castle* had ignored safety violations they knew about or should have known about, thereby violating the privity clause of their insurance policy. It said the ship had been manned by an "incompetent crew"

and that the master, who died of a heart attack midway through the voyage, had boarded the ship in Havana "physically unfit to serve." It said the first officer, who assumed the position of acting master upon the master's death, had been "incompetent." It further alleged that the ship had failed to provide a proper watch the night of the fire and had failed to conduct proper fire and boat drills. Ward Line's position—that it was entitled to reimbursement—was not helped when the acting master and chief engineer of the *Morro Castle* were convicted in 1936 of criminal negligence in connection with the accident even though those convictions were overturned on appeal. Ward Line was also convicted and was fined $10,000. It did not appeal.

In 1937, Ward Line sued Continental for reimbursement of its settlements. The steamship company won at the trial level: in March 1940 a federal district court ordered Continental to indemnify the claims. But in January 1941 the Second Circuit US Court of Appeals reversed the lower court and said Continental did not have to pay. The appeals court

ABOVE: **Crowds gathered on the beach of Asbury Park, New Jersey, in September 1934 to view the charred remains of the *Morro Castle*. A fire on the ship took the lives of more than 130 passengers and crew members in one of the nation's worst maritime disasters.**

ABOVE: John Dempsey, a commissioner of the federal Maritime Commission, met with representatives of the American Club in 1941 and supported their efforts to find a new source of reinsurance.

said the burden of proof lay with Ward Line to show it had *not* violated the privity clause rather than with Continental to show that it *had*. It said Ward Line had not met this test. The US Supreme Court declined to review the decision, letting it stand.

Steamship owners were shocked by the Second Circuit ruling. *Best's Insurance News* said the ruling "completely upsets the ideas previously held by shipowners as to the protection afforded" by their P&I cover. *The Weekly Underwriter,* an insurance trade journal, warned that the decision "completely destroys" P&I coverage by allowing insurers to use privity as an excuse to reject nearly any claim.

Although the American Club had never invoked its privity clause, many members of the Club now worried that it might. P&I clubs are highly attuned to the interests of their owner-members. In addressing its members' concerns about privity, the Club acted in the most unambiguous way possible: it deleted the clause from its by-laws.

However, this action did not sit well with the Club's reinsurers in London, who felt that privity was an essential tool to protect against willful negligence. They demanded that the Club restore the clause. When the directors of the Club stood their ground and refused, the reinsurers cancelled the Club's coverage.

This striking turn of events—from the Second Circuit ruling to the termination of the Club's reinsurance—took place in a period of less than two months from late January to late March 1941.

The Club scurried to find a new source of reinsurance. LaBoyteaux checked with several US-based insurers, but none was willing to reinsure the Club's risks. Desperate for a solution, Henry Bernard, the Club's secretary, and Ira Campbell, its general counsel, met in Washington with John Dempsey, one of the federal Maritime Commission's five commissioners, and asked his advice. "The outcome of this conference was very satisfactory," Bernard told the Club's directors. It turned out that the commission was itself worried about the Second Circuit ruling. Not only did Dempsey fully endorse the removal of the clause by the Club. But days later the Maritime Commission ordered the deletion of the privity clause from any P&I policy written on any vessel in which the commission had an interest.

Going further, Dempsey said the commission would reinsure the Club if it couldn't find satisfactory coverage in the private market. However, he asked the Club to make one last-ditch effort to obtain reinsurance privately in the United States.

Perhaps the commission used its muscle to get reinsurers to change their minds. For whatever reason, the Club now had little trouble buying the reinsurance it needed. Insurance Company of North America was the lead underwriter and was joined by Fireman's Fund Insurance Company, St. Paul Fire and Marine Insurance Company and other top names. The companies reinsured the Club for each loss in excess of $100,000 up to a maximum of $2.1 million, similar to the coverage the Club had previously obtained in London. Although it wasn't stated this way at the time, the reinsurers may have been seeking to gain a foothold in the P&I market, and reinsuring the Club offered a way to do so.

In reporting on these events, *The Nautical Gazette* said privity clauses had become "archaic" and unnecessary since it was already well established in US law that P&I insurers were not liable for losses arising from intentional or fraudulent acts. The American Club is believed to have been the first P&I insurer in the world to do away with the clause. Others followed, and today traditional privity clauses no longer exist in P&I coverage.

Most P&I insurance now has a "willful misconduct" clause instead. The American Club's rules define willful misconduct as "an act intentionally done, or a deliberate omission, by the Member with knowledge that the performance or omission will probably result in injury, or an act done or omitted in such a way as to allow an inference of a reckless disregard of the probable consequences"—a far cry from the more open-ended language of the privity clauses of yore.

By definition, most accidents involve at least some degree of negligence by someone. Putting aside the specifics of the *Morro Castle* case, insurance wouldn't be worth much to the buyer if negligence could be routinely used to deny payment of claims. P&I insurance has evolved since *Morro Castle* to reflect this reality. "Exclusion of coverage arising from simple negligence would never be a valid defense today for an insurer," Hughes says.

Insuring the Wartime Merchant Fleet

Privity was the kind of conceptual issue that fascinated LaBoyteaux and got his intellectual juices flowing. Following the Second Circuit decision, he was called upon to testify on privity in court cases and to advise clients on the topic.

He was at the peak of his career and was enjoying a wonderful year. He earned more than $300,000 in 1941, one of the top salaries in America. On top of that, his prize filly, Imperatrice, won six of the 12 races in which she was entered and was out of the money only twice. After she won the Saratoga Test Stakes at seven furlongs in August 1941, he predicted that she would "win at a mile before snow flies"—and she did.

On the other hand, with war on the horizon, his beloved American Club was entering a period of dizzying change. Henry Bernard, the Club's secretary, said World War II "gave rise to more difficult and important problems than ever before experienced by protection and indemnity underwriters." Like a great ocean liner forced to change course in a storm to ensure the safety and comfort of her passengers, the American Club veered from its original path to meet the needs of the government during the conflict.

The United States declared war in December 1941. Days later, the Maritime Commission warned, "We have to build a great number of ships in a hurry." The commission rose to the challenge and mass-produced nearly 6,000 freighters and tankers between 1941 and 1945 in one of the greatest shipbuilding feats ever accomplished.

The commission produced the ships while a sister agency, the War Shipping Administration (WSA), operated them and bought insurance. The commission and the administration were both headed by Emory Land, a retired admiral whom the *New York*

ABOVE: A small crowd gathers around a radio outside the Capitol on December 8, 1941, to listen to President Roosevelt's speech taking place inside the building. At Roosevelt's urging, Congress declared war against Japan, bringing the US into World War II.

Times described as "a peppery man with an active dislike of red tape and stuffed shirts."

As in the earlier war, the government turned to the American Club to provide P&I coverage on its vessels. This time, however, there was a difference. In what was surely a disappointment for LaBoyteaux, the Club was one of four insurers chosen by the government, not the only one:

- *The American Club*
- *Fireman's Fund Insurance Company*
- *Fulton P&I Underwriting Agency,* underwriting on behalf of Agricultural Insurance Company, Automobile Insurance Company of Hartford, Home Insurance Company, United States Fire Insurance Company and Westchester Fire Insurance Company
- *Marine Office of America,* underwriting on behalf of American Insurance Company, American Eagle Fire Insurance Company, Continental Insurance Company, Fidelity-Phenix Fire Insurance Company, Firemen's Insurance Company of Newark, Glens Falls Insurance Company and Hanover Insurance Company

Land noted that each of the four was already writing P&I insurance as of 1941. The WSA used its powers "with proper restraint," he asserted, by selecting all four to take part in the government program, thereby "avoiding the destruction of the American private insurance market." The WSA was the dominant buyer of P&I cover during the war, and it would have been difficult for any P&I insurer to have survived without its business. Because the American Club was the oldest and largest P&I insurer among the four, there was some expectation among the Club's directors that it would receive the biggest piece of the government's business. However, the WSA divided its P&I coverage equally among the four to avoid taking sides.

ABOVE: Fireman's Fund was one of four providers of P&I coverage for government merchant vessels during the war.

BELOW: Retired Admiral Emory Land headed the Maritime Commission and the War Shipping Administration, which owned and operated the wartime merchant fleet.

Regardless of any disappointment over its limited role, the Club bent itself to the will of the WSA. One way the Club changed was by casting aside the traditional February 20 P&I insurance year. The WSA wanted to buy insurance on a calendar-year basis, so the four insurers, including the Club, switched to a December 31 year beginning in 1942. For whatever reason, the Club stuck with December 31 as the date for membership renewals—out of step with all the other P&I clubs in the world—for the next three decades before returning to February 20 in 1972.

In addition, the Club changed its by-laws to sell insurance to the WSA at a fixed premium, issuing policies similar to those issued by stockholder-owned companies. "The Club had very little mutual business from 1942 to 1946," John Sandercock, a maritime attorney and former vice president of Shipowners Claims Bureau, points out.

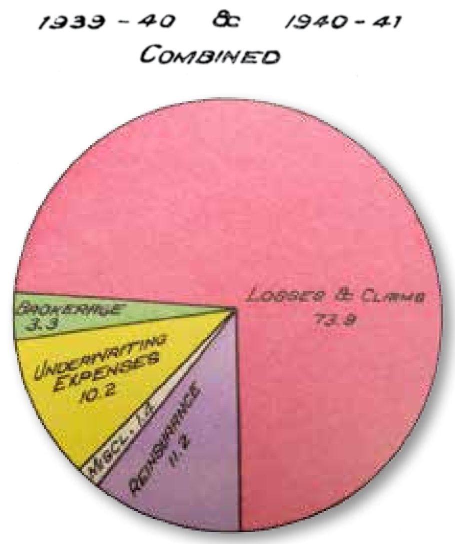
Moreover, the Club gave up some of its independence to work with the government. The WSA program was spelled out in three contracts and 18 amendments signed between 1942 and 1947 and was "very complex," Henry Bernard said.

Among other provisions, the four participating underwriters shared equally in each individual loss regardless of which of the four had written the risk and had settled the claim. In a private memo to the Club's directors, Bernard—who seems to have been a bit of a worrywart, and perhaps for good reason in light of the challenges faced by the Club during the war—complained that this arrangement "has resulted in the Association losing its individuality and independence and has taken out of the hands of the Directors the freedom of action the Board should have in claims settlements."

Then there was the delicate question of how much money the four P&I insurers could properly earn by selling coverage to the government in a time of war. The answer: relatively little. The WSA viewed the four insurers as "claim servicing organizations," not underwriters. It took most of the underwriting risk itself and kept most of the underwriting profit.

The original contract for 1942 allocated 90 percent of any underwriting profit or loss to the government and 10 percent to the four insurers. Each subsequent year had its own formula, giving the Club "a comparatively small interest in the underwriting results" from 1942 through 1946, Bernard noted.

Years after the war was over, when all the claims had been settled and the books on the WSA program had been closed, the government had received $48 million in underwriting profit and the four insurers had received $2.4 million, or $600,000 each. To be fair, the insurers were fully reimbursed for their costs,



ABOVE: A color chart in the Club's minutes shows the breakdown of expenses for the combined 1940 and 1941 insurance years.

LEFT: Women at a shipyard pose with signs listing their jobs. By 1943, nearly two-thirds of the shipyard workers on the West Coast were women, replacing men who had gone off to war.

ABOVE: The federal Maritime Administration was formed in 1950 to succeed the Maritime Commission and War Shipping Administration. The Club and the Maritime Administration became locked in a disagreement over the ownership of investment profits from World War II insurance contracts.

enabling them to meet their payrolls and continue in business despite the tremendous economic and social disruptions of the war.

Bernard was unhappy with many aspects of the program. But he was most irritated by a clause that allowed the WSA to decline financial responsibility for any claim exceeding $50,000. He worried that the Club might get stuck with having to pay large claims from its own pocket. In 1944, he went so far as to suggest that the Club stop insuring WSA vessels. However, the Club's directors rejected the idea. They saw no choice except to continue in the program since it was the only major source of P&I business at the time. Moreover, the directors recognized that many companies and industries were making sacrifices to support the war effort and felt the Club should do its part even if the terms of its deal with the WSA were not totally to the Club's liking.

Who Owns the Investment Earnings?

In a strange omission, the WSA agreement did not address one of the most basic issues: who owned the investment income and capital gains generated by the premiums and reserves that were held by the four insurers.

During the original negotiations in 1942, the WSA had wanted to keep all the investment profits but had said it was not authorized to take responsibility for any investment losses. Quite understandably, the insurers had objected to the idea of being saddled with the losses while the WSA appropriated the earnings. The two sides could not bridge their differences, and the contract did not say a word about the investment results and how they would be divided.

The lack of a written agreement was like a wealthy person dying without a will. Who owned the investment profits—the government or the insurers—remained up for grabs for years. The amount at stake for the American Club was $1.9 million, a goodly sum back then.

Nothing happened until 1963, when the Maritime Administration (MARAD)—which had succeeded the Maritime Commission and the WSA—demanded that the insurers hand over all the investment profits. It claimed the insurers had been "agents" of the government during the war; government payments to the insurers had been "advances," not "premiums"; and the government therefore owned all the investment income and capital gains generated by the advances.

Attorney Vernon Jones, representing the Club, saw matters entirely differently. He dismissed MARAD's theory as being "specious"—and in any event, he observed, it was "rather late in the day," nearly 20 years after the war had ended, for the government to suddenly lay claim to the funds.

Jones issued what he called a "friendly invitation" to MARAD to sue the Club and let the courts decide. Before considering that option, MARAD asked the US Comptroller General for his opinion. In 1964, the Comptroller General said the government had missed its chance when it failed to include the profits in the original agreement and had "no legal basis" to claim them now. But he suggested that MARAD seek the opinion of the US Attorney General just to be sure.

Three years later, the Attorney General confirmed that the monies belonged to the insurers. The $1.9 million was added to the Club's contingency reserve, providing a welcome financial boost more than two decades after the war had ended.

The *American Leader* and the *Sawokla*

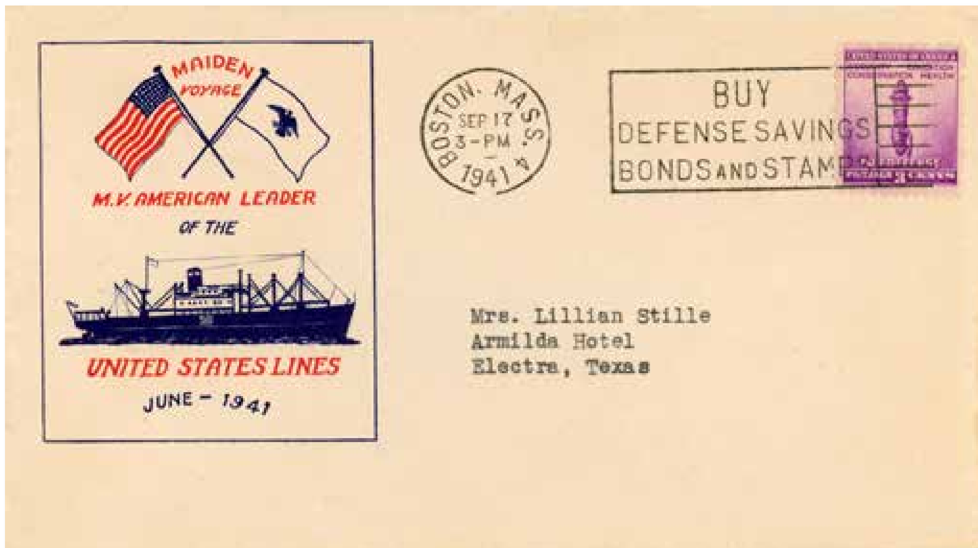
World War II was a busy period for the Club and its underwriting and claims teams. The four underwriters, including the Club, insured 5,400 vessels and paid nearly 350,000 losses. Most of the settlements involved cargo damage, damage to docks, injuries to crew and other typical P&I claims. But there also were some unusual claims, including one involving the ill-fated cargo ship *American Leader*.

The *American Leader* had been launched with much hoopla in May 1941 at a time when the United States was expanding its merchant fleet. The Post Office even issued a first-day cover—a special envelope with a picture of the ship for sale to stamp collectors—to celebrate the launch. Proceeds from the sale "will go to aid torpedoed and shipwrecked crews," the Associated Press reported.

The same AP article reported that Germany had just issued a stamp honoring Hitler's 52nd birthday, with proceeds to benefit "Hitler's culture fund." This odd juxtaposition—Hitler and the *American Leader* in successive paragraphs of an AP article about postage stamps—had a bizarre dénouement when a German raider torpedoed and sank the *American Leader* several months later.

The ship was originally entered in the Club in 1941 by United States Lines. After being requisitioned by the government in 1942, she continued to be operated by United States Lines on behalf of the WSA and continued to be insured by the Club for the agency.

In September 1942, she was sailing unescorted from Ceylon to New York around the southern tip of Africa—carrying a shipment of rubber and chemicals—when Allied naval control at Cape Town instructed her master to take a long route through



TOP: The motor vessel *American Leader*, insured by the Club, was sunk by a German raider in 1942. The surviving crew members were captured and sent to a Japanese prison camp.

ABOVE: The *American Leader* set sail on her maiden voyage in June 1941, as shown by this first-day postal cover.

The mortality rate for merchant mariners during World War II was higher than for the Army, Navy or any other military branch.

ABOVE RIGHT: Trainees drill in 1943 at the United States Maritime Service training station on Hoffman Island in Lower New York Bay. *Mast Magazine* noted that Hoffman Island was the Maritime Service's oldest training facility. "Opened on September 7, 1938, the station has established a precedent for the entire service to follow in turning out topflight seamen, and a visitor is quickly and firmly told that Hoffman Island is not only the 'oldest station, but also the best,'" the magazine wrote.

the Strait of Magellan to the Pacific, up the west coast of South America and through the Panama Canal to the Caribbean to avoid German raiders and U-boats in the South Atlantic.

Despite this precaution, three days out of Cape Town the *American Leader* was spotted and sunk by the German raider *Michel*. Ten members of the *American Leader* crew died in the attack and others were captured and sent to Japanese prison camps, where they remained until war's end.

After the war, 16 of the survivors sued United States Lines for personal injuries, accusing the company of negligence in their capture and imprisonment: they said the first mate had failed to close a porthole, allowing light to shine out like a beacon and attract the raider.

The case raised several complicated questions, including: Could steamship companies be held liable for the consequences of attacks on their vessels in time of war? If so, which P&I insurer—the government or the Club—was responsible for paying any damages?

It also highlighted the extraordinary sacrifices made by merchant mariners of all nations during World War II. Merchant vessels came under fire from submarines, surface ships, airplanes, mines and

ABOVE: Even before the United States entered World War II in December 1941, the government was expanding the nation's merchant fleet and recruiting and training merchant mariners.

land-based artillery. No location on the oceans of the world was safe. Thousands of US mariners were injured, and one in every 26 was killed, a death rate that was higher than the rate for the Army, Navy, Marines or any other US military branch.

While recognizing these sacrifices, the American Club had to deal with the realities of P&I insurance and advise United States Lines on how to respond to the *American Leader* lawsuit. Ira Campbell, the Club's general counsel, urged the steamship company to settle the litigation rather than go to trial. "All of the complaints made by the crew can be explained," he wrote, "but whether the explanations will be enough to overcome the tendencies of a jury to award damages to men who were interned as prisoners of war and subjected to severe punishment is problematical."

His advice, although simple and straightforward, set in motion series of responses he had not bargained for.

Heeding Campbell's recommendation, United States Lines agreed to settle the lawsuit for $48,000—and then asked the government for reimbursement. WSA ships were covered by two separate P&I programs. The four insurers, including the American Club, provided basic coverage and excluded any liabilities that were "the consequences of hostilities or war-like operations." War risks were self-insured by the government.

But the government declined to pay, insisting the attack on the vessel did not involve a war risk. "The wrongful display of the light occurred before the attack began and at a time when the vessel was not engaged in a warlike operation," it said.

ABOVE: Basil Harris, president of United States Lines, was a leader of the Club during the war. He was elected to the Club's board in April 1942 and was chairman from 1943 to 1948. The picture was taken in 1939, when he left United States Lines for a year to help the federal government reorganize its shipping activities. He was a devout Catholic and major contributor to Catholic charities. "No American Catholic layman stood in closer relationship to Pope Pius XII," the *New York Times* wrote.

ABOVE: **Trainees at the United States Maritime Service facility in St. Petersburg, Florida, man a lifeboat in an abandon-ship drill. A Maritime Service press release said, "The Merchant Marine is playing a vital role in winning the war. Without it, supplies, equipment and troops could not be transported to our battlefronts."**

If the government didn't reimburse United States Lines for the settlement, the Club would have to. So in 1954 the Club and United States Lines sued the government, asking a federal district court to decide whether the Club or the government was responsible for paying the $48,000.

In a further complication, the government had already paid $32,000 to the 16 men for disabilities resulting from their imprisonment. The men were war heroes who had endured great hardship. Yet that didn't stop the government from filing liens against them seeking to recoup its $32,000 if the men collected $48,000 from the P&I settlement. The men said, in turn, that they would not sign the P&I settlement unless the government withdrew its liens.

The 1954 lawsuit against Uncle Sam got off to a bad start for the Club. The judge directed the government to remove the liens but said the Club would have to reimburse the government for the disability payments if it lost the lawsuit. Responsibility for $20,000 of attorneys' fees was also up for grabs. All told, the Club suddenly found itself at risk for $100,000—the P&I settlement, the disability outlays and the attorneys' fees—if the judge sided with the government and ruled that the capture and imprisonment of the crew members was not war-related.

But that was just the beginning. The judge further upped the ante by combining the *American Leader* case with a dispute involving the *Sawokla*, which was also insured by the Club. The circumstances were eerily similar: the *Sawokla* was sunk by the *Michel;* the survivors were dispatched to Japanese prisoner-of-war camps; some of them sued American Export Lines, which operated the ship for the WSA, alleging that the vessel had attracted the raider by emitting too much smoke; American Export negotiated a settlement; and the government P&I program wouldn't pay, insisting the claims stemmed from excessive smoke, not from acts of war. All told, the *Sawokla* case involved $145,000 of disability costs, P&I payments and attorneys' fees.

The twists and turns of life are sometimes hard to explain: from its original lawsuit aimed at compelling the government to pay $48,000, the Club now found itself on the defensive and at risk of having to hand over $245,000—the combined amount of the *American Leader* and *Sawokla* cases—if the court held it liable for the various amounts. Campbell said the two cases were the only ones from World War II in which the government war-risks P&I program had refused to indemnify settlements that arose from "the actual torpedoing and sinking by a German warship." In other disputes between the four insurers and the government about who should pay, the losses had been "caused by risks of a marine nature, such as collision or stranding," he said.

Because the two cases were unique, with no precedents in the law, it was difficult for the Club or the government to predict how the court might rule.

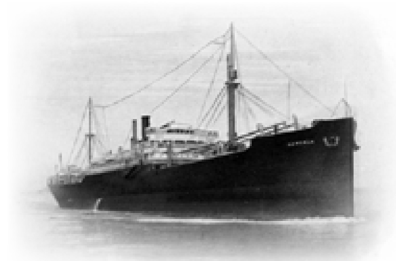
In February 1956, Howard Fanning, a Justice Department attorney, proposed a compromise: he said the government was willing to split the $245,000 fifty-fifty with the Club. But the Club's directors, still rankled that the government wouldn't indemnify the two P&I settlements, rejected the offer. "The managers [Shipowners Claims Bureau] and counsel feel very strongly that both claims should be borne by the United States of America as War P&I underwriter," the directors' minutes stated emphatically.

The judge then suggested that the Club pay $82,000 and the government $163,000. This time, the Club said yes rather than go to trial and risk being held liable for everything.

In February 1957, both sides accepted the judge's proposal, and a complex insurance dispute—one involving two sharply different views of the boundary between basic and war-risk P&I coverage—was finally over. But the Club's directors continued to shake their heads in disbelief. They were as convinced as ever that the Club was not legally responsible for any of the payments. They endorsed the settlement, according to the minutes, only after considering "the many uncertainties of proving our position and the possibility of an unfavorable court decision."

Fortunately, most other P&I claims during the war were much simpler and were settled quickly without any fuss.

Because the *American Leader* and *Sawokla* insurance disputes were unique, with no precedents in the law, it was difficult for the Club or the government to predict how the court might rule.



ABOVE: The *Sawokla* was entered in the American Club in 1931 and continued to be insured by the Club after being requisitioned by the War Shipping Administration. She was sunk by a German raider in 1942. Of her 41 crew members, 16 were killed in the attack and the others spent the remainder of the war in prison camps.

CHAPTER SIX

Loyal Members in the Postwar Years

The outlook for the American-flag steamship industry seemed brighter than ever when World War II ended. The merchant fleets of most seafaring nations had been decimated by the war. The United States, by contrast, had built far more ships than it had lost. As a result, the United States owned an astonishing 56 percent of the global merchant fleet at war's end. A government booklet, aimed at boosting the morale of returning military personnel, stated brashly that "the United States has become not only the foremost maritime power but the overwhelming giant among shipping pygmies."

But what would the United States do with all its merchant vessels? And would it be able to sustain its newfound advantage? The London-based Royal Institute of International Relations said "the future of world shipping" depended on the answers.

After World War I, the Shipping Board had tried to sell its fleet at top prices and had found few buyers. After World War II, the Maritime Commission (which owned the government fleet even though the WSA operated the ships and bought insurance) took a different approach. It asked relatively inexpensive prices and gave preference to American-flag companies, but also sold to foreign companies when American buyers couldn't be found. Many members of the American Club jumped at the opportunity to grow quickly by purchasing ships at bargain rates.

Grace Line acquired 20 vessels from the Maritime Commission and launched five new ships, primarily for its South American routes. It sought to double its cargo business from prewar levels.

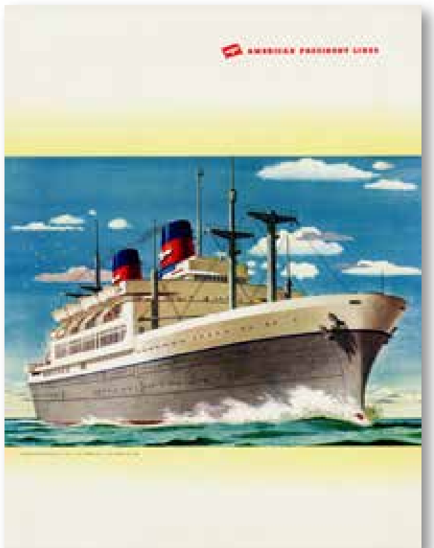
American President Lines bought or chartered 30 ships from the commission, launched two new luxury liners and reopened routes to Asia and other markets. "Industrialization of the Far East will not only increase demand for American machinery and materials of all kinds, but will also develop a greater flow of passenger traffic," CEO George Killion predicted.

United States Lines acquired 39 ships and resumed regular service to Europe, Australia, New Zealand and the Far East. Prior to the war, Great Britain had been the undisputed ruler of the seas; most British imports and exports had been carried in that nation's ships. Immediately after the war, the American flag was so dominant that nearly half of all British exports in 1946 were carried in United States Lines freighters, something that would have been unthinkable just a few years earlier.

It took time for the Maritime Commission to sell its vessels and for steamship companies to adjust to a peacetime economy. Inevitably, there were snafus and

PRECEDING PAGES: The *SS United States* was the largest, fastest and most luxurious American-flag ocean liner ever to sail the seas. She was insured by the American Club throughout her 17 years of service.

ABOVE: Club member United States Lines was one of the largest American-flag steamship companies in the years after World War II, offering passenger and cargo service to destinations worldwide.



TOP: Former President Harry Truman, and his wife Bess and their daughter Margaret, pose in 1953 aboard the *SS President Cleveland,* owned by Club member American President Lines. They were returning from a vacation in Hawaii.

ABOVE: An American President Lines menu. One writer said the line's meals were "elegantly served."

shortages of capacity in the months after the war. American President Lines resumed around-the-world cruises on its dual cargo-passenger ships in March 1947. However, demand for the limited number of cabins far exceeded the available supply. So the company devised a novel solution: it allocated one reservation for each US state. "Only one passenger or one couple from each state per ship will be accepted to spread the reservations over as wide a geographical area as possible," it said.

Capacity shortages only strengthened the competitive position of American-flag companies, which controlled many more ships than the flags of any other nation.

Keeping the Club Alive

Unfortunately, the postwar surge of the American fleet did not bring growth to the American Club. The Maritime Commission sold many of its ships to companies that were not members of the Club, and these ships came off the Club's books as the new owners took possession. As a result, tonnage entered in the Club—which had reached a wartime peak of 7.1 million gross tons in 1945—receded after war's end. By 1949, tonnage was back to its prewar level of less than 2 million.

The cargo vessel *Steel Navigator* is an example of the shift of tonnage away from the Club. The commission insured her with the Club during the war but sold her in 1947 to Isthmian Lines, which bought P&I coverage from Marine Office of America, one of the Club's for-profit competitors.

Moreover, the days were now long past when nearly every marine brokerage client of Johnson & Higgins belonged to the American Club. Thomas "Tom" McGowan, who was a broker in the marine insurance department of J&H from 1967 to 1977 before transferring to Shipowners Claims Bureau and the Club, acknowledges that he "never placed a single piece of business with the American Club." J&H brokers had a professional obligation to seek the best P&I deal for each client regardless of the firm's affiliation with the Club, and McGowan says the premium rates quoted by the Club in the postwar era were simply too high in comparison to those offered by the British and Scandinavian clubs. Atlantic Richfield Company and States Marine Lines were just two of the many Johnson & Higgins clients that bought their P&I coverage from insurers other than the Club, although both did eventually join the American Club in the 1970s.

ABOVE: Millions of tons of food were shipped to Europe after World War II to relieve hunger, including this flour being loaded on the *SS Winifred L. Smith* of Club member American Export Lines.

In the face of these challenging conditions, a core group of loyal members stood by the Club and kept it alive.

In the face of these challenging conditions, a core group of loyal members—some clients of J&H, some not—stood by the Club and kept it alive. They included several of the nation's premier steamship companies, notably American Export Lines, American President Lines, A. H. Bull Steamship Company, Grace Line and United States Lines, all of which were J&H clients, and Keystone Shipping Company, a client of insurance broker H. C. Knight & Co. Each of these companies stayed with the Club from the 1930s through the 1950s and in some cases beyond. Farrell Lines, represented by broker Corroon & Black, joined the Club in 1954 and became another of its core members.

ABOVE AND RIGHT: Among the members that staunchly supported the Club in the postwar years were A. H. Bull, with refrigerated cargo ships that transported fruit from Florida, and Grace Line, known for luxury cruises.

These loyal, long-term members spurned all offers to place their business with other insurers because they liked having their own P&I association which they controlled and which met their needs. Board member Adolph Kurz of Keystone Shipping described the American Club with quiet satisfaction. "Simply stated," he said, "we run our own shop and try to conduct our affairs as gentlemen working one with the other."

The core members dominated the Club. By 1967, each of the five largest members had two board seats. The board was like an exclusive fraternity. As was true from the Club's beginning and is still true today, many of the directors were company CEOs who chose to serve on the board themselves rather than delegate the responsibility to subordinates. Directors in the years immediately after the war included Basil Harris, chairman of United States Lines, then the nation's largest passenger-freight steamship company; Charles Kurz, founder and CEO of Keystone Shipping, one of the largest tanker companies; and Ranney Adams, president of Grace Line, the top American-flag carrier between the United States and South America.

The board packed a sizable amount of business into each monthly meeting, dealing with claims, membership applications, reinsurance arrangements, assessment rates and other matters. But the meetings had a social element as well. Cigars were passed out to those who smoked, and drinks were served at each meeting's end. The tradition of cigars continued into the 1980s even as smoking began to fall from favor. "We always put out a box of good cigars," says Tom McGowan, who became secretary in 1983. "That's the way the Club was."

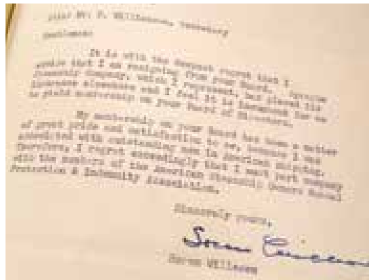
Meetings were often scheduled to coincide with meetings of the Propeller Club of New York, a prestigious industry group. In that way, directors could attend the board meeting of the American Club in the morning and afternoon and socialize with fellow maritime executives at the Propeller Club in the evening, an arrangement that was especially convenient for directors from out of town.

When Soren Willesen, executive vice president of Sprague Steamship Company of Boston, resigned from the board in 1959 after Sprague had left for a different P&I insurer, he wrote a letter of thanks to his fellow directors, expressing pride in having served on the board "with outstanding men in American shipping." He was delighted to rejoin the board three years later when Sprague returned to the Club.

H. Lee White, president of Marine Transport Lines, was one of the more imposing board members, serving from 1958 until his death in 1969. He was a senior partner of Cadwalader, Wickersham & Taft, a top Wall Street law firm, as well as CEO of Marine Transport. He spent his mornings at the law firm's offices at 14 Wall Street, advising corporate clients, and after lunch walked two blocks to Marine Transport's offices at 60 Broad Street to spend the rest of the day on company business. Conveniently, the American Club was located at 25 Broad; he simply had to cross the street to attend board meetings.

White had purchased Marine Transport in 1958 with an influential group of partners, including former General Motors president Charles Wilson. He built it into one of the largest US-owned steamship companies with a fleet of more than 100 freighters and tankers. He was proud of his roots in Oswego, New York, where he had grown up, and honored the city in the names of his ships, including the *Oswego Freedom, Oswego Victory* and *Oswego Reliance.*

He was constantly looking to expand. In 1965, he negotiated a deal to acquire the fleet of Greek shipowner Stavros Niarchos, a transaction that would have made Marine Transport the largest maritime company in the world. But the deal fell through for reasons that were never explained, and Marine Transport had to settle for continuing as one of biggest American companies.



ABOVE: Captain Soren Willesen of Sprague Steamship Company wrote this letter to express his appreciation of the Club and his fellow board members when he resigned as a director in 1959.

BELOW: H. Lee White, a Wall Street attorney, president of Marine Transport Lines and director of the Club, is pictured with the freighter bearing his name.

Chris Williamson Becomes Secretary; the Continued Role of Henry Bernard

In addition to having a powerful board of directors, the Club entered the postwar era with a new secretary—Christian "Chris" Williamson, who was elected in January 1945 and served for the next 28 years, the longest tenure of any secretary in the Club's history. He succeeded Henry Bernard, who was promoted to partnership at J&H but continued as a director of the Club for the next decade.

As J&H's representative on the American Club board after the war, Bernard continued to play an active role in its affairs even though he was no longer secretary. Williamson viewed him as a mentor and often turned to him for advice, as in 1947 when he asked whether the Club should offer rate discounts for steamships using radar, which had been developed during the war. Bernard cautioned against doing so, saying it would "create a precedent which would bring about demands for a reduction for every conceivable invention or device that might or might not prove of value." Based on Bernard's recommendation, Williamson suggested to the board that the Club defer any decision on the matter, and the board agreed.

Williamson was born in New York in 1908 to immigrant parents. His mother was from Germany and his father from Denmark. His father had arrived in the United States at age 22, had found work as a boiler stoker in a New York City-owned building and had saved enough money to buy a house on Staten Island, the southernmost of the city's five boroughs, where young Chris grew up.

Chris joined Johnson & Higgins in 1926 after graduating from high school and spent his entire career with J&H and Shipowners. By 1930, he was a bookkeeper at Shipowners. By 1940, he was an underwriter at Shipowners earning $3,000 a year, a handsome salary at a time when the nation was emerging from the Great Depression and the average income in the United States was just $1,368. He was named a vice president of the J&H subsidiary in 1942, and three years later became its president as well as secretary of the Club at age 37.

Richard H. Brown Jr., a retired general counsel of the Club, describes Williamson as "a big guy with a ruddy face" who was friendly and upbeat. Jack Cassedy, who succeeded Williamson in the dual positions of Club secretary and Shipowners president, adds, "He was a nice guy, a very nice gentleman."

Unlike previous secretaries, who had possessed forceful personalities and had helped shape the Club's policies, Williamson played a more limited role. "He did whatever the board of directors told him," Cassedy says. "He was a great servant for the board, as I understand it. He did not do anything, nor was he asked to do anything, to help the Club grow." Even if he wasn't the most aggressive secretary in the Club's history, he was capable enough to be selected for the job by LaBoyteaux and Bernard, both of whom demanded a lot from the people who worked for them.

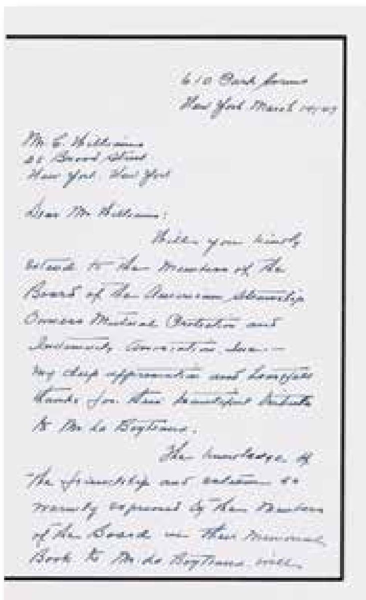
ABOVE: **Chris Williamson spent his entire career with Johnson & Higgins and the American Club and served as the Club's secretary from 1945 to 1973.**

The Passing of W. H. LaBoyteaux

LaBoyteaux, however, would not be around for most of Williamson's tenure. He died from a heart attack in 1947 at age 74. LaBoyteaux had seemed almost indestructible, continuing as CEO of J&H until the last day of his life, with no thought of retirement. An obituary in *Weekly Underwriter* described him as "one of the outstanding insurance men in the country for many years."

LaBoyteaux had dominated J&H for more than three decades, leading it to growth and profitability in marine insurance brokerage. In addition, he had been largely responsible for the founding of the American Club and had never wavered in his support of the Club. He was once asked why he dedicated himself so ardently to the Club even though it made relatively little money for Johnson & Higgins. He replied, "I bit off something and I have to keep hold of it."

Following his death, the Club would never again command the same degree of attention from the highest levels of J&H management as it had when LaBoyteaux was alive.



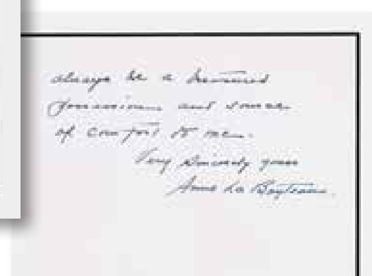
610 Park Avenue
New York March 14/47

Mr C. Williamson
25 Broad Street
New York New York

Dear Mr Williamson;

Will you kindly extend to the Members of the Board of the American Steamship Owners Mutual Protection and Indemnity Association Inc— my deep appreciation and heartfelt thanks for their beautiful tribute to Mr La Boyteaux.

The knowledge of the friendship and esteem so warmly expressed by the Members of the Board in their Memorial Book to Mr La Boyteaux will



always be a treasured possession and source of comfort to me.

Very sincerely yours
Anne La Boyteaux

LEFT: **When W. H. LaBoyteaux, Johnson & Higgins' longtime CEO, died in 1947, the Club's directors sent a letter of condolence to his widow, Anne. She responded with this note on black-bordered mourning stationery.**

Insuring the *SS United States*

John Sandercock, a former underwriter for the Club, has characterized the years from 1946 to 1971 as a conservative period in American business during which the Club's directors and J&H "made few changes to the way the Club operated and did little to attract new business."

Or as Joe Hughes, the Club's current secretary, says, "European clubs became bigger and more aggressive in the 1960s, winning business from the American Club, which was seen as falling behind the times."

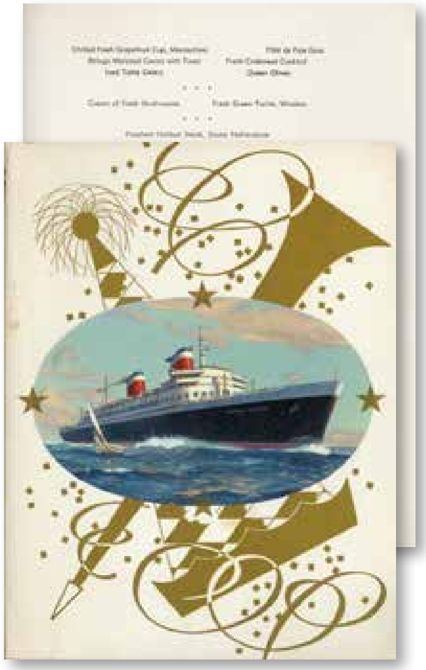
In fact, the quarter century after the war was perhaps the most difficult period in the Club's history, culminating in a series of crises that nearly forced the Club out of business. However, the Club didn't go straight downhill. There were bright moments and exciting accomplishments, as well as periods of regression, in the years after World War II.

On the positive side, the Club helped insure the government merchant fleet during the Korean War, although the fleet was much smaller and the Club played a more limited role than in the prior war. After hostilities broke out in 1950, the US government formed the National Shipping Authority (NSA) to establish a fleet of cargo ships and troop carriers. NSA turned to the four World War II insurers to provide P&I cover but made clear it was selecting them on a "short-term basis," *Shipbuilding and Shipping Record* said. At the peak of its involvement, the Club insured 728,000 government-owned tons, equivalent to about one-ninth of the peak government tonnage it had insured during World War II.

The Club's role lasted just one year. In March 1952, NSA opened the P&I contract to competitive bidding—and National Automobile & Casualty Insurance Company, a West Coast auto insurer which had never before written P&I coverage on oceangoing vessels, surprised everyone by submitting the low bid and winning the deal. National Automobile held the contract for two years and then withdrew from the P&I business.

Providing P&I cover for the *SS United States* was a memorable high point for the Club. Launched in 1952, she was the largest, fastest and most elegant ocean liner ever to fly the American flag. Just as *Singin' in the Rain*, released that same year, is sometimes said to mark the peak of the golden age of Hollywood musicals, the *United States* marked the peak of transatlantic travel by luxurious American-flag steamship.

ABOVE: Numerous tugs accompany the *SS United States* as she arrives in New York in June 1952 following her shakedown cruise from Newport News, Virginia. One newspaper wrote that she was given "a royal welcome," with tugboats, fireboats, helicopters and blimps turning out for the occasion.



ABOVE: The menus of the *SS United States* were as stylish as the ship herself. Inspired by the popularity of the cuisine on board, United States Lines created a cookbook (not shown) for passengers so they could try their hand at preparing their favorite *SS United States* dishes at home.

She was the all-time speed champ of the seas, crossing the North Atlantic faster than any other ocean liner had done before or has done since. When she left New York on her maiden voyage in July 1952, crowds gathered at Pier 86 on the Hudson River to see her off, anticipating a new transatlantic speed record. Her departure was "a festive event with bands playing and crowds cheering," the *New York Herald Tribune* reported. She did not disappoint, arriving at Southampton in three days, 10 hours and 40 minutes, eclipsing the old record by more than 10 hours. She then turned around and established a westbound speed record on her voyage back to New York—greeted again by jubilant crowds as she was eased into her berth on the Hudson. Her master, Commodore Harry Manning, was famously quoted as saying, "I feel like a pitcher who has pitched a no-hit game."

The *United States* was entered in the American Club for 17 years from 1952 through 1969, when she was laid up and went off cover. In 1952, the year the *United States* was launched, more than 35 ocean liners were engaged in transatlantic service during the summer travel season. Then came a new form of travel: the jet plane. Transatlantic air service was still in its infancy when the *United States* was launched. However, the competitive balance between sea and air changed rapidly over the next several years as the luxury and glamour of ocean liners gave way to the speed, convenience and lower fares of airplanes. By 1974, just one ocean liner, the *Queen Elizabeth 2,* still plied the Atlantic between North America and Europe.

Even though he didn't consider himself a trailblazer, Chris Williamson personally demonstrated the shift from sea to air when he visited Europe in September 1952. He sailed first class on the *United States* from New York to Southampton. But for his return trip to New York, he chose not the *United States* but a seven-hour flight from Stockholm on SAS. Even the secretary of the American Club, which is dedicated to the needs of the maritime industry, couldn't resist the allure of getting to his destination faster rather than fancier.

Today, large, luxurious ships are again popular with the public, but mostly for cruises rather than for travel.

Global Shipping Industry Expands, US Shipping Industry Falters

The global steamship industry expanded rapidly even as ocean liners faded into history. Freighters and tankers took up the slack and became more important than ever, driven by a boom in international trade. Total tonnage of the world merchant fleet doubled between 1948 and 1964 and doubled again between 1964 and 1974.

However, the United States did not participate in this dramatic growth. Instead, its once-dominant position crumbled for a variety of reasons, including high operating costs, labor disputes and an aging American fleet as other nations rebuilt.

By 1954, the American fleet had slipped to 30 percent of global tonnage. *Lloyd's Register of Shipping* reported that Japan was "building new ships at a faster clip than any other country" and that Italy, Germany, Great Britain, Norway and Sweden were not far behind.

The Greek maritime industry was also on the rise. In a 1952 speech at the Naval War College, Captain

Bennett Dodson of the US Navy said the "fabulous Greek shipping magnates" controlled 10 percent of the world's shipping, "flying nearly every flag of the maritime world with a complex cartel system of partnerships, corporations and interlocking directorates." He also noted the growth of flags of convenience. "There are 560 ships registered in Panama," he said, "owned by nearly everybody except Panamanians."

As foreign flags grew, America's position in the maritime industry deteriorated—so much so that by 1992 a meager four percent of the world's tonnage operated under the US flag. In March 1992, John Lillie, CEO of American President Companies, corporate parent of American President Lines, told the *Baltimore Sun,* "At present there is no economic justification to invest in US-flag vessels. The US-flag shipping industry is in a state of orderly liquidation as current vessels reach the end of their useful life." Indeed, by 2013 the American flag accounted for just two percent of global tonnage.

Just Nine Members

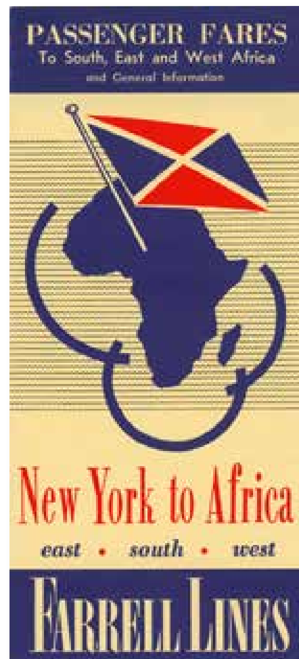
The directors of the American Club did not initially see these changes coming, or if they did see them they chose not to respond. They were happy with the Club the way it was and resisted the idea of opening the Club to foreign flags, where industry growth was taking place.

In 1949, Henry Bernard recommended that the Club begin insuring foreign-flag steamships. "It was pointed out that in the past the Association insured such vessels when they were owned by affiliated companies of the members and also foreign-flag vessels chartered by the members," the directors' minutes stated. But the board tabled the question—and did not discuss it again for 22 years.

The Club paid a heavy price for this lapse, standing by while its membership shrank and the rolls of the British and Scandinavian P&I clubs swelled. The Club had more than 40 members prior to World War II. By 1960, just 11 were left: American Export Lines, American President Lines, Bull Steamship Company, Farrell Lines, Grace Line, Keystone Shipping Company, Marine Transport Lines, Pocahontas Steamship Company, Trinidad Corporation, Union Carbide Corporation and United States Lines. The era of loyal, longtime members—members who supported the Club through all economic conditions, regardless of competition from other P&I insurers—was beginning to unwind.

Eleven members dwindled to nine in 1961. American Export left that year to obtain coverage at less expensive rates from the London Club. "It is with sincere regret that American Export Lines has found it necessary to leave the Association," its president, Admiral John "Dutch" Will, said in a letter to Chris Williamson. "Speaking for the company we are most appreciative of the very

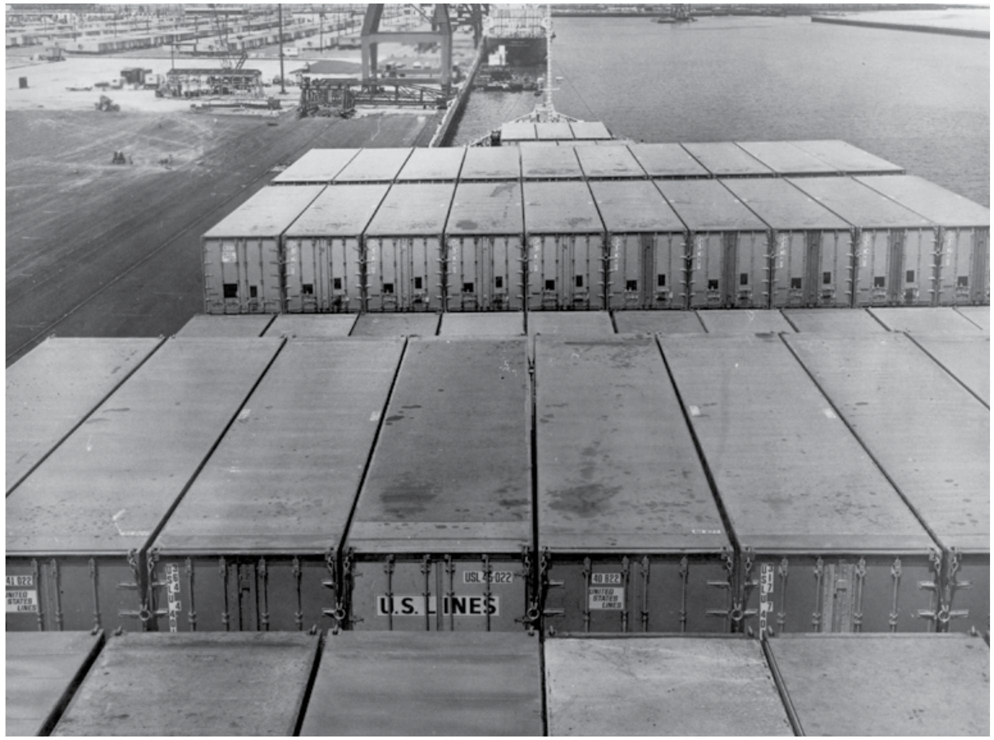
BELOW: Farrell Lines joined the American Club in 1954 and continued as a member for 50 years. It operated one of the largest American-flag merchant fleets, and provided cargo and passenger service between the United States and Africa. Its ships *African Endeavor* and *African Enterprise* offered the only regularly scheduled direct passenger service between the US and Southern Africa.



RIGHT: **Malcom McLean was the father of containerization: shipping freight in large containers for easier handling. He purchased American Club member United States Lines in 1978 and built up its fleet of container ships.**

FAR RIGHT: **United States Lines was already an advocate of containerization when it was acquired by McLean. It launched its first container ship, *American Lancer*, pictured in Port Elizabeth, New Jersey, in 1968.**

BELOW RIGHT: **Seatrain Lines was another early leader in containerization. It was briefly a member of the American Club in 1962.**



excellent service we have received in connection with our claims and were it not due to the prospect of an appreciable saving of money during the coming year we would never have considered leaving."

Bull Steamship withdrew that same year after being acquired by Greek-born shipping mogul Manuel Kulukundis.

The loss of American Export and Bull Steamship was a wake-up call, forcing Johnson & Higgins, Shipowners Claims Bureau and the Club's directors to recognize that the Club was faltering and needed to rebuild. The directors from the nine remaining members banded together in an attempt to revitalize the Club and save it from potential extinction. Marketing became a regular topic at board meetings. The directors reached out to their friends in the American-flag industry and to insurance brokers to explain the advantages of the American Club. (But the directors still weren't ready to accept foreign-flag members.)

One of the directors, John Ellis Knowles, a partner in Marine Transport Lines, wrote a marketing memorandum for use by his fellow board members. He listed six reasons for choosing the American Club, including "Organization—the Club is completely independent and able to choose any manager it wishes" and "Security—assets are located in the US."

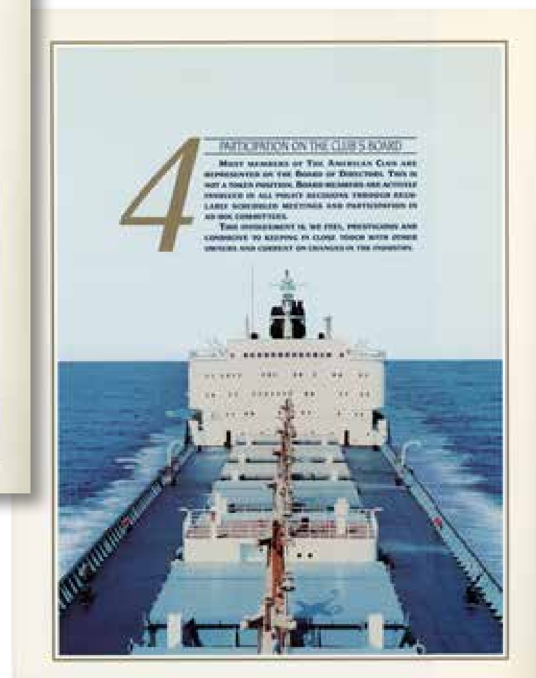
Membership rebounded somewhat as the Club took a more proactive marketing approach. Seatrain Lines, Alcoa Steamship Company and Ormet Corporation joined in 1962 followed by Bulk Food Carriers and Tropigas Tankers in 1963. However, none of these companies entered more than a few vessels. Bulk Food Carriers, for one, entered a single vessel: the 10,400-ton *Rice Queen,* a World War II Liberty Ship which had been converted into the world's largest bulk rice carrier, transporting the product from growers in California to buyers in Puerto Rico.

In a critical breakthrough, the Club began winning business from Marsh & McLennan, J&H's archrival in insurance brokerage. Following LaBoyteaux's death, J&H had become somewhat less dominant in the marine insurance market, and other firms now felt more comfortable placing their clients' P&I cover with a J&H-managed club.

In 1969, Marsh client Hess Oil & Chemical Corporation left the UK Club to join the American Club, entering 17 vessels. Hess was the 198th largest company on the *Fortune* 500 list and was growing rapidly, and was a good catch for the Club. World Wide Tankers, an affiliate of the Skouras group of companies, and several other Marsh clients also joined in the late 1960s.

Rising Claims Costs

Then there was the sticky matter of rising claims costs. All the P&I clubs felt the impact of higher claims, but the American Club was harder hit than most because it limited itself to insuring American-flag ships. Claims costs for personal injuries are typically much greater in the United States than in other nations due to differing legal systems, including the widespread use of jury trials in the United States to



ABOVE: This American Club marketing booklet explained some of the advantages of joining the Club and was aimed at helping to revive the Club in a period when membership was declining.

In a critical breakthrough, the Club began winning business from Marsh & McLennan, J&H's archrival in insurance brokerage.

determine responsibility for injuries and award damages. Jury trials for injuries are relatively rare in other parts of the world. A 2005 research paper titled *Personal Injury Claims Related to Seafaring* notes, "In the US, filing a claim can lead to an enormous award that will probably never be reached in any other country."

Three claims highlight the upward trend in the 1960s.

BELOW: In 1966, the Club paid $1.2 million in claims when a Grace Line ship collided with a drawbridge in New Jersey. Pictured is the swing span, which was knocked 10 feet from its center pivot pin. The accident halted commuter rail service for more than two months.

In 1961, the *Pioneer Muse,* owned by Club member United States Lines, ran aground on an island near Okinawa after having changed course to avoid a typhoon. The accident resulted in the payment of the largest claim in the Club's history to that time: $726,000 for cargo damage and personal injuries.

The Club incurred its first million-dollar claim five years later in 1966, involving the Grace Line steamship *Santa Isabel.* The vessel was proceeding down the Raritan River in New Jersey, on a routine voyage in fair weather, when she approached a railroad drawbridge. The ship's master ordered a "hard left" to go through an open section of the bridge, but the helmsman turned hard right. "I said, 'What the hell are you doing, I shouted for a hard left,'" the master later testified. The helmsman took immediate corrective action and turned hard left. But it was too late as the ship ploughed into the center support upon which the bridge rotated, putting the entire span out of service for more than two months.

The New York & Long Branch Railroad Company, which owned the bridge, claimed $1.7 million in damages. The Club's lawyers advised, with obvious understatement, that "the chances of proving any contributory fault on the part of the owner of the bridge are not promising" in view of the fact that the ship had collided with a fixed, visible structure in broad daylight. The Club settled for $1.2 million.

Two years after that, the stakes got considerably higher—and the situation was far more tragic—in a case involving the Farrell Lines steamship *African Star,* which collided on the Mississippi River with a tank barge carrying highly volatile crude oil. The oil ignited and engulfed the *African Star* in flames, resulting in 21 deaths and numerous injuries. Each pilot blamed the other, and a Coast Guard safety board concluded that "the witnesses of the two vessels gave such conflicting testimony it was impossible to reconstruct the events leading up to the collision." The Club settled the claims for $4.9 million. John N. "Jack" Robinson—who had succeeded Henry Bernard as the J&H partner in charge of supervising Shipowners Claims Bureau and the Club—called the incident an "enormous loss" for the victims and their families and a "disastrous shock" for the Club and its reinsurers.

Reinsurance Merry-Go-Round

Each of these claims was reinsured for amounts in excess of $100,000. However, larger reinsurance recoveries led to the Club being charged larger reinsurance premiums. Robinson warned in 1964 that he had "a very definite fear that the Association may become non-competitive with other P&I markets" if its reinsurance costs got too high.

The British P&I clubs were better positioned when it came to reinsurance. Many of them belonged to the London Group, a predecessor of today's International Group. The group had been formed in 1899 by six British clubs to pool their risks and share in the payment of each other's large claims. In 1951, as the value of claims increased, they jointly purchased reinsurance in the commercial market in London. Their group buying power gave them much lower reinsurance costs than the American Club could ever hope to obtain. The British clubs were like a convoy of ships traveling together for mutual benefit, while the American Club was left to navigate the seas of reinsurance as best it could on its own.

Robinson—who was tall and intimidating, with an intense look and sonorous voice—personally took charge of the Club's reinsurance negotiations. The Club's very future depended on his ability to get the best possible deal.

Insurance Company of North America (INA) had been the Club's lead reinsurer since 1941. As of 1962, the Club was reinsured for up to $2.5 million per occurrence by INA and above that in a layer from $2.5 million to $5 million by Lloyd's of London. But INA was losing money on its business with the Club and sought to raise the renewal premium by 60 percent in 1963. Robinson dismissed the proposed increase as "exorbitant" and looked for a more affordable price.

After finding no takers in the London market, he reached a deal with Chicago-based Kemper Insurance Group, which joined with six other American companies to assume the Club's entire $5 million of reinsurance, replacing both INA and Lloyd's. Robinson said the Club was "fortunate to get Kemper at much more acceptable terms" than those on the expiring policies.

However, Kemper fared no better than INA, losing money. Despite that, it renewed the policy in 1964 with only a modest rate increase. "We must credit them with a fine spirit of cooperation in the face of their bad loss experience," Robinson said in a letter to Chris Williamson.

In 1965, the Club had an unexpected banner year with no reinsured losses, prompting Robinson to ask for a rate reduction—to which Kemper said no.

ABOVE: The Lutine Bell is a symbol of Lloyd's of London. The American Club has often placed its reinsurance with Lloyd's.

"If you owned a shipping company, would you sell it, buy another, or go into another business?" the *New York Times* asked in 1969.

ABOVE: Grace Line was a premier American-flag steamship company and was a member of the American Club from 1917 until 1969, when it was acquired by Prudential Lines to create Prudential-Grace Lines.

"We made efforts to obtain some concession from the expiring lead through the argument offered by the clean experience of the 1965 year," Robinson wrote, "but the underwriter was unwilling to accept this argument in view of the bad five-year experience."

So Robinson hopped aboard a jet to London and developed what he called "a reinsurance plan of an entirely different nature" at Lloyd's. A Lloyd's syndicate led by Peter Cameron-Webb, one of the most powerful marine underwriters of the time, agreed to charge an initial premium equal to 5.4 percent of the calls and premiums collected by the Club, less than half what Kemper had been charging. This rate applied to the first $2.5 million of reinsurance; there were similar savings versus Kemper for the layer between $2.5 million and $5 million. The deal included a formula for rate increases if the Club's loss experience worsened.

But claims rose so sharply, fueled in part by the large *African Star* loss in 1968, that the formula couldn't keep pace. The Club paid total premiums of $1.9 million to the Cameron-Webb syndicate from 1966 through 1968, while the syndicate reimbursed the Club for $6.6 million of losses, an untenable situation. When the policy expired on December 31, 1968, the syndicate declined to renew, forcing Robinson to scramble yet again.

This time he turned to a Lloyd's syndicate headed by Peter Green, another of the top marine underwriters. The *Independent,* a British daily, described Green as "genial, tough and direct" and said he was a "marine grandee." His family had been in the ship-owning business since the 1700s, and he was both a Lloyd's underwriter and keen yachtsman.

Green agreed to reinsure the Club, but hedged his bets by insisting that the Club retain more risk than it had in the past. The new policy included a deductible of $250,000 per occurrence plus a newly instituted $1 million aggregate annual deductible.

Green loved the reinsurance business and was unfazed by its sometimes large risks. He was fond of saying, "Spectacular losses are just marvelous free advertising." If that was the case, he would get plenty of free advertising from the American Club, as we shall see in the next chapter.

Maritime Industry Shake-Up

By the late 1960s, the structure of the American-flag steamship industry was changing as companies struggled to make money. Steamship companies in the United States had typically been independent, stand-alone businesses not owned by larger corporations. Many of them had been founded by rugged individualists who had exemplified the American dream of success through hard work.

But the industry was now coming into play on Wall Street. "If you owned a shipping company, would you sell it, buy another or go into another business?" the *New York Times* asked in 1969. "That question is receiving a variety of answers as acquisitions of and by shipping companies are producing some interesting cross-currents of corporate philosophy."

In 1968, City Investing Company, one of the larger and more aggressive conglomerates, purchased a 26 percent stake in American Club member Moore & McCormack, citing opportunities for cost savings from containerization, which was beginning to revolutionize the transport of cargos.

On the other hand, W. R. Grace & Company, owner of Grace Line, quit the maritime business in 1969 to concentrate on other fields, including chemicals and packaging. Although steamships had been a core activity of W. R. Grace for more than seven decades, it said they "no longer fit with our newer activities and future plans." It sold Grace Line to Spyros S. Skouras, owner of American Club member Prudential Lines, who merged Prudential and Grace to form Prudential-Grace Lines.

Also in 1969, Walter Kidde & Company—a conglomerate which manufactured everything from smoke alarms to hydraulic cranes to Farberware cookery—ventured into shipping by acquiring United States Lines, one of the leading clients of Johnson & Higgins and the largest member of the American Club, accounting for 11 percent of the Club's entered tonnage. Few steamship companies were as closely allied with the Club as United States Lines. The company had played an active role in the Club's governance for 40 years, and its CEO, Charles Gibbons, had been chairman of the Club's board for 13 years.

New owners often terminate a company's existing business relationships and choose other suppliers and business partners. Nonetheless, Williamson and Johnson & Higgins hoped United States Lines would stay with the American Club because of the organizations' long history of working together closely. But that was not to be. After being acquired by Kidde, United States Lines switched insurance brokers from J&H to Frank B. Hall & Company and withdrew from the Club to join the UK Club. The loss of United States Lines "was embarrassing for Johnson & Higgins and was devastating, I think, for Chris Williamson," McGowan says.

Although losing its largest member was unsettling for the Club, the worst was yet to come. The shakeup of the American-flag maritime industry would continue for years, challenging the Club's very existence. The Club would have to endure more bad news and trauma, including a mass exodus by more than half its members in 1971, before righting itself and embarking on a journey to become the successful global P&I insurer it is today.

ABOVE: The son of Prudential Lines owner Spyros S. Skouras etches the family name on the keel of the *Prudential Seajet,* being built at Sparrows Point, Maryland. The Maritime Administration (MARAD) subsidized the construction and operation of the *Prudential Seajet* and many other American-flag vessels. The "C" in "C4" stands for cargo.

CHAPTER SEVEN

The 1970s: Downturn, Recovery and Change

In 1972, John H. "Jack" Cassedy was called into the office of Jack Robinson, the no-nonsense Johnson & Higgins partner who supervised Shipowners Claims Bureau and the American Club. Cassedy, then 41, had been with J&H for two decades and was a vice president in the firm's Average Adjusting Department. His goal was to head the department one day.

But Robinson saw Cassedy's future differently. He told the up-and-coming executive that he was being transferred to Shipowners Claims Bureau as its new CEO, with instructions to revitalize the American Club or shut it down. Just months earlier, J&H had phoned all its clients that were members of the Club to warn them about the Club's dire circumstances. It had even suggested they consider changing P&I insurers. "That's very funny, isn't it?" Cassedy remarks. "They were sending me over at the same time they were taking business out of the Club."

PRECEDING PAGES: Fifteen ships, bearing a variety of national flags, became stranded in the Suez Canal during the Six-Day War in 1967. They remained stuck there, unable to leave, until 1975. The closing of the canal for eight years disrupted international commerce by forcing ships to make long voyages around Africa.

ABOVE: Isthmian Lines, operator of a worldwide fleet of cargo and passenger ships, joined the Club in 1970 but left one year later, in 1971, as part of a mass exodus of members.

RIGHT: Marsh & McLennan, one of the nation's largest insurance brokers, withdrew its clients from the American Club in 1971 because of concerns about "an insufficient spread of risk."

Mass Exodus

When Robinson met with Cassedy, the Club was listing badly from a barrage of membership defections, rising claims costs and reinsurance difficulties. These same problems had vexed the Club for nearly 20 years. Only now they were getting worse, threatening the Club's survival.

The Club experienced an especially severe blow on January 1, 1971: more than half the members left when their insurance came up for renewal. (The Club still operated on a calendar year rather than the traditional February 20 P&I year.)

The defections began when broker Marsh & McLennan withdrew all its clients. It noted that the Club had slipped below 3 million entered tons, resulting in what it called an "insufficient spread of risk." It also warned that the Club was pricing itself out of the market as sharp increases in its reinsurance costs forced it to charge larger assessments. The prices quoted by the American Club for 1971 were one-third higher than those quoted by the British clubs, according to Marsh. It said its clients could not afford to pass up the lower British rates.

After Marsh withdrew its clients, J&H phoned *its* clients to advise them that it shared the same concerns expressed by Marsh. Gone were the days when J&H gave the Club its unqualified support.

The directors of the Club were painfully aware of the situation they faced. The minutes of the February 11, 1971, board meeting state, "It was agreed that the high cost of reinsurance created serious problems for the Association and made it extremely difficult for the Association to be competitive." The directors lamented that the British clubs, by pooling their risks through the International Group in London, were able to obtain reinsurance at much lower prices than those available to the American Club.

A surge in membership in the late 1960s had given the Club hope. But many of the same companies that had joined the Club in the late 1960s now pulled out, turning hope into anguish. Hess Oil & Chemical Corporation, Isthmian Lines and Moore & McCormack were among the many members that withdrew on January 1, 1971. The Club had 2.9 million entered tons on December 31, 1970. One day later, after the mass defections, it had just 1.4 million tons, the lowest level in nearly 30 years.

The British and Scandinavian clubs were growing by accepting members from around the globe. As of 1970, the UK Club insured 44 million gross tons registered under 68 different flags. Nations in many parts of the world were expanding their merchant fleets as the American fleet was contracting. Yet, the American Club clung to its policy of limiting itself to one flag—that of the United States.

Ongoing Reinsurance Quandary

Peter Green, the American Club's principal reinsurer at Lloyd's, was "very perturbed" when he heard about the sudden drop in entered tonnage, according to a memo from Jack Robinson to the Club's directors. The Janson Green syndicate, which Green headed, was already losing money on its business with the Club and believed that any chance of turning a profit had disappeared with the membership decline.

Green and his partners wanted to terminate their contract but couldn't. Robinson put the matter bluntly when he told the Club's board, "We think you are alert to the fact that many of the participants in the treaty wish for the opportunity of being relieved of their commitments, a relief they cannot obtain by reason of the obligatory terms of the treaty."

The directors tried to rein in the Club's reinsurance costs. At their urging, Robinson sought to modify the contract with Green by reducing the $1 million aggregate annual deductible to $500,000. The directors believed the Club could save money by retaining less risk even if it had to pay more premium in return. But Green rejected the idea, saying a lower deductible had "no support" at Lloyd's.

Willis, Faber & Co., J&H's British correspondent, scoured the London market for another reinsurer that might offer better terms than Green. Peter Cameron-Webb, the Lloyd's underwriter who had previously reinsured the Club, "reluctantly" agreed to submit a bid. But the premium he quoted—40 percent to 45 percent of the assessments and premiums received by the Club—was more than double the price already being charged by Green, and his offer was turned down without comment by the Club's board.

Stymied in London, two of the Club's directors—Worth Fowler, CEO of American President Lines, and Leo Ross, CEO of Pacific Far East Line—went to Washington to ask Andrew Gibson, assistant secretary for maritime affairs in the Department of Commerce, for help in finding an American reinsurer willing to charge less than Green. Gibson expressed support for the Club but did not offer any assistance.

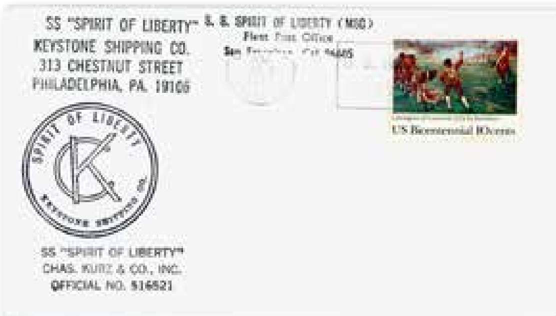
Willis Faber ultimately warned (in a telex message written in the truncated language of that medium), "As know several writers wanting to be relieved their commitment this cover, essential we go very carefully" in seeking to modify the contract or find a new reinsurer.

ABOVE: The Club's reinsurer, Peter Green of Lloyd's of London, was "very perturbed" when the Club's entered tonnage shrank nearly 50 percent in 1971. Nonetheless, he remained a staunch supporter of the Club for many years.

CENTER LEFT: American Club director Worth Fowler, CEO of American President Lines, was active in the Club's attempts to reduce its reinsurance costs and find new members.

CENTER RIGHT: Andrew Gibson, assistant secretary for maritime affairs in the Department of Commerce, met with representatives of the Club in 1971 to discuss its reinsurance problems. He expressed encouragement but did not offer tangible help.

ABOVE: Admiral James S. Gracey, Commandant of the Coast Guard, center, was guest speaker at a dinner meeting of the American Club's directors in 1984. He is flanked by longtime Club director Adolph Kurz of Keystone Shipping on his right and Thomas Smith, Club chairman, on his left.



RIGHT: A 1975 postal envelope commemorates the *Spirit of Liberty*, a Keystone Shipping tanker. Keystone was a Club member for more than 60 years.

Keystone Shipping and the Kurz Family

Adolph Kurz, president of Keystone Shipping Company, was chairman of the Club's board during these uncertain times. As much as anyone, he and his father, Charles Kurz—Keystone's founder, who also was a director of the Club—saved the American Club from collapse in the dark days of the early 1970s. They remained loyal to the Club even as many other members left.

Charles Kurz—a small man with brown hair and a spring in his step—was one of the legendary self-made men of American shipping. He was born in Philadelphia in 1888 to German immigrant parents and quit school at age 12 to support his widowed mother. He began as an errand boy for a custom-house broker in Philadelphia and advanced quickly, becoming the broker's most successful salesman at age 16. Visiting Cincinnati, he talked his way into the office of Rudolph Wurlitzer, president of Wurlitzer Company, which imported pipe organs from Europe via New York. Charles won the company's business by convincing Wurlitzer that Philadelphia was a modern port that could unload and forward the company's products faster and less expensively than New York.

At 26, Charles quit his job to found his own company. That company evolved into Keystone, one of the largest and most successful American-flag tanker businesses, carrying products for Shell Oil, British Petroleum and other major corporations.

The Kurz family had a long association with the Club. Not only did Charles serve on its board for 37 years from 1934 to 1971, but his son, Adolph, sat on the board for 42 years from 1955 to 1997 and was chairman from 1969 to 1979. Unlike his father, who had little formal education, Adolph was a Wharton School graduate with a degree in economics. He was an astute businessman who dressed impeccably and was soft-spoken and gracious—"a delightful gentleman," in the words of Tom McGowan. Continuing the family's active involvement in the Club, Adolph's son, Charles Kurz II, was a board member from 1977 to 1997 and served as chairman for three years. There was a Kurz on the American Club board for 64 consecutive years.

The American Club was left with just a dozen members following the mass defections in January 1971. Of those 12, none was more important than

Keystone, which accounted for nearly one-quarter of the Club's post-defection tonnage. Without Keystone, the Club would almost certainly have gone out of business.

Charles and Adolph knew they could buy P&I coverage less expensively in London. Why did they stay? Jack Cassedy believes they were motivated primarily by loyalty. "They did not think of the American Club as an insurance company," he says. "They thought of it as their organization. They took great pride in it. They wanted to keep this thing going." They may also have been guided by a preference to be a big fish in a small organization, able to have a leading voice in its policies, rather than a small fish in one of the big British clubs. John Sandercock says of Adolph Kurz, "He was always cordial. He never raised his voice. But it was pretty clear that this was his club. Nothing went on without his approval."

A Search for New Members

Adolph Kurz recognized that the Club was in trouble and needed to grow to survive. Following the defections, he called a special meeting of the board of directors "to explore the ways and means for building up the Association and increasing its membership." The board's finance committee, which he led, was given the task of finding new members and encouraging existing members to stay.

In June 1971, the finance committee met with George Handley, head of the marine insurance department at Marsh & McLennan, to discuss how the Club might regain Marsh's support and attract new tonnage. The Club's biggest drawback, Handley advised, was a membership roster made up exclusively of American-flag companies, many of which had high claims costs.

Handley offered a simple solution to the Club's problems: admit foreign-flag members and, by doing so, "lower the average claims costs of all members and make for a better spread of risk." Similar meetings were held with brokers from Johnson & Higgins, Corroon & Black and other firms, resulting in each case in the same recommendation. However, the Club's directors still weren't ready to insure foreign-owned vessels and turned down the brokers' advice. Kurz, for one, believed the Club was best served by sticking to American-flag business, as it had done since its founding. In his view, the Club's focus on American tonnage helped differentiate it from the European clubs and was an important selling point in recruiting new US members.

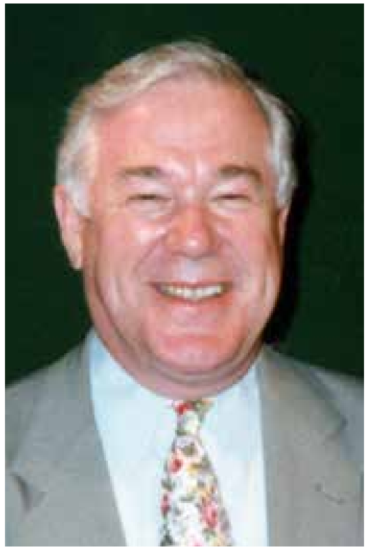
In addition to talking with brokers, Kurz reached out to members that were wavering in their support of the Club. Columbia Steamship Company—a subsidiary of iron-ore merchant Oglebay Norton Company, and owner of one of the largest fleets

George Handley of Marsh & McLennan offered a simple solution to the Club's problems: admit foreign-flag members and, by doing so, "lower the average claims costs of all members and make for a better spread of risk."

BELOW: The *Robert C. Norton* was one of many bulk carriers entered in the Club by Oglebay Norton, a Great Lakes iron ore and coal mining company.

on the Great Lakes—announced plans to leave the American Club. Kurz and other members of the finance committee met with Columbia's senior executives in Cleveland and convinced them to stay.

Kurz went to San Francisco to meet with the senior management of American President Lines, one of the top American-flag steamship companies in the Pacific Ocean, which was undecided about its future with the Club. The company was the Club's second biggest member, representing 16 percent of entered tonnage. "APL management raised a series of 11 questions regarding the Club and their relationship and responsibilities with it," according to the finance committee minutes. Kurz and Chris Williamson prepared a detailed response to each of the questions. American President Lines' CEO, Worth Fowler—himself a director of the Club—was "entirely satisfied" with the answers. The answers were then turned into a marketing brochure that was circulated throughout the American-flag industry to try to attract new members.



ABOVE: **Jack Cassedy was secretary of the American Club from 1973 to 1981 and was president and later chairman of Shipowners Claims Bureau, the Club's manager, from 1972 to 1993.**

LEFT: **American President Lines was one of a small group of core members that stuck with the Club throughout the 1970s, helping it survive. All the line's ships were named for American presidents, such as the *President Jefferson* and the *President Fillmore*.**

The results of these efforts were mixed. Columbia Steamship and American President Lines stayed in the Club, but few new members were recruited—at least not right away. Speaking of Adolph Kurz, Cassedy says, "He was a 100 percent American Club man. He loved the Club and took great interest in it. He wanted to grow the Club but didn't know how to do it, and nobody did, I guess, at the time."

Cassedy Becomes Secretary

Jack Cassedy was thrust into the middle of this tangled situation when he was named president of Shipowners in 1972 and secretary of the Club the following year, succeeding Williamson, who retired.

Cassedy grew up in New Jersey and was a star athlete as a youth. Short and muscular, he played football and ran track in high school and was recruited by Providence College on a track scholarship. He excelled in the 440-yard sprint, winning many collegiate races. Upon graduating from Providence in 1952, he joined Johnson & Higgins as an average adjuster and continued his passion for competitive sports by running track with the New York Athletic Club. At the same time, he attended graduate school at New York University and earned an MBA.

The Club needed a leader with enthusiasm and marketing skill at this juncture in its history, and Cassedy possessed those qualities in spades. Now in his eighties, he remains as irrepressible as ever and likes to tell oddball jokes that elicit groans. (An example: One cannibal asked another cannibal what happened to his friend. "He's just passing through," the second cannibal replied.) "Jack loves to clown around," McGowan says.

ABOVE: Concerns about energy and the environment burst onto the scene in the 1970s. Crowds gather in Washington in 1990 to celebrate the 20th anniversary of Earth Day.

ABOVE RIGHT: Americans were beset by gasoline shortages in the early 1970s.

RIGHT: An advocacy group created this postcard to be sent to President Jimmy Carter, asking him to support the continuation of car ferry service across Lake Michigan. The cards emphasized that car ferries help reduce gasoline consumption.

Cassedy took charge when the American-flag merchant marine was entering an especially corrosive phase of its lengthy postwar decline. Steamship companies faced many new problems in the 1970s, including tepid economic growth, runaway inflation and the 1973–1974 Arab oil embargo. World crude oil prices shot up more than 1,000 percent between 1974 and 1980, driving fuel costs sharply higher. Even as costs went up, excess global shipping capacity drove cargo rates down. Caught in a squeeze between higher costs and lower revenues, several members of the Club, including Bulk Food Carriers and Pacific Far East Line, filed for bankruptcy in the late 1970s and many others struggled to remain profitable.

The rise of the environmental movement was another factor to be reckoned with. The phrase "environmental regulation" did not even appear in the *Wall Street Journal* until 1970. Since then, it has been mentioned hundreds of times. The year 1970 saw the first Earth Day, the creation of the US Environmental Protection Agency and passage of the Water Quality Improvement Act, which authorized the federal government to clean up oil spills from ships and bill shipowners the cost. Other US and international environmental laws and regulations followed. Today, with hundreds of environmental rules and regulations on the books, maritime companies devote great effort to compliance, as they have since the environmental movement got its start in the 1970s.

In nominating Cassedy as secretary, Johnson & Higgins sought to bring a fresh perspective to the Club's problems and opportunities in this challenging industry environment. It was willing to gamble that someone with no P&I experience could shake up and reenergize the Club. "Mr. Cassedy has the advantage, by reason of his average adjusting experience, of complete independence in the P&I field," Jack Robinson wrote.

Cassedy set about learning the business. "The first thing I did," he says, "was spend time with Chris Williamson because I knew nothing about P&I." Williamson was generous with his time and taught Cassedy the basics of P&I insurance. Cassedy also met one-on-one with each of the Club's directors and with former directors, shipowners and insurance brokers, asking what they liked about the Club, what

ABOVE: In the 1970s, McAllister Brothers of New York became the first major tug company to join the Club.

RIGHT: A mural on a wall in Grand Marais, Minnesota, honors the 29 men who lost their lives in the sinking of the *Edmund Fitzgerald* in a storm on Lake Superior in 1975. At the time, the ship was the largest on the Great Lakes, and she remains the largest ever to have sunk there. Her loss was a factor in a decision by the British clubs to disband their Lakes Pool, which provided P&I coverage for Great Lakes vessels.

they didn't like and what he could do to make it more competitive.

In these meetings, he found widespread support for maintaining an American P&I market by keeping the Club alive, even if few companies actually wanted to join the Club. The Club desperately needed new members, but it enlisted just one in the four years from 1971 through 1974—Timbo Shipping Ltd., a relatively small tanker line owned by the Kurz family.

Unfazed, Cassedy pushed ahead by giving speeches to maritime groups and making himself available for media interviews. Moreover, he hired the Club's first public relations firm and launched its first advertising program. The PR and advertising efforts were "keyed to the Club's ultimate goal of winning new American members in competition with the British Clubs," according to an internal memo.

Cassedy and the directors searched far and wide for would-be members. In 1972, they returned the Club to the industry-standard February 20 insurance year to make it easier for companies to enroll when their existing coverage with other P&I insurers expired.

In 1974, the directors voted to reach out proactively to insure tugs and barges, which until then were only a minor part of the Club's business. As of 1970, small craft (including tugs and barges) entered in the Club came to just 25,000 tons, or less than one percent of the Club's total entered tonnage. McAllister Brothers of New York became the first major tug company to join the American Club, switching from the Standard Club in London. One of the American Club's strengths, then as now, is its responsiveness to members' needs. At McAllister's request, the Club broadened its P&I coverage to include excess towers liability insurance at no extra cost. By 1977, the American Club insured 900,000 tons of small craft, representing nearly one-fifth of entered tonnage. Tugs and barges helped carry the Club through the challenging decade of the 1970s.

In 1977, the directors capitalized on another opportunity when the Lakes Pool in London was disbanded. The pool—a consortium of British clubs, including the UK and the Standard—was the leading provider of P&I cover for steamship companies on the Great Lakes. In 1975, the iron-ore carrier *Edmund Fitzgerald* sank in a ferocious storm on Lake Superior, with the loss of her entire crew. The sinking was one of the worst maritime disasters in Great Lakes history and may have been a factor in the decision to disband the pool. The American Club immediately began marketing itself to the Great Lakes companies when the pool was terminated. American Steamship Company, Cleveland-Cliffs Iron Company and Oglebay Norton Company were among those that joined the Club, providing an infusion of 600,000 tons. "We got heavily involved in the Lakes business," McGowan says.

Joining the American Club in the 1970s required a leap of faith that the Club would survive. The directors sought to make that leap more enticing by offering specific advantages not available from the European clubs. They hit upon the idea of tailoring the financial terms of membership to help companies deal with their cash flow problems. They kept the Club's advance calls low. "Since the advance premium is lower than those required by most other clubs, the assessment will, of course, run at a higher level," a Club publication noted. "However, members do retain the working use of funds that are ultimately paid as premium."

In addition, they let members pay calls over time. "We allowed companies to pay the advance call monthly if they wished to," Cassedy says. "And when supplementary calls came out, we allowed them to pay in four installments over the course of a year."

Furthermore, the Club reimbursed all claims within 30 days. "No waiting six weeks to two months or longer for reimbursement—while your money gathers interest for someone else," a marketing brochure stated.

Short-term interest rates exceeded 10 percent in the late 1970s and approached a remarkable 20 percent in 1980–1981. Low initial calls, the stretched-out payment of supplementary calls and quick reimbursements of claims were like money from heaven for shipowners in an era when they could earn double-digit returns on their cash balances.

In another key step, the directors helped spread the American Club gospel by introducing Cassedy to their friends in the industry. "The chief executives of the various steamship companies all knew each other and were buddies," he says. Through these introductions, he met face-to-face with senior executives of many

TOP: Cleveland-Cliffs Iron Company joined the Club in 1977. Pictured is the ore carrier ***Willis B. Boyer***.

ABOVE: Inflation soared in the 1970s, raising costs for virtually all businesses, including shipowners. A 1978 editorial cartoon shows President Jimmy Carter as the biblical David taking on a Goliath named Inflation.

non-member companies, told them about the Club and sought to assure them that it had a viable future.

The Club pulled out all the stops, appealing to shipowners' patriotism as well as to their pocketbooks. An advertisement for the Club, published in several trade magazines, began with the headline "I Am an American Shipowner" and continued with the text, "As an American shipowner, I know that even with the support of the American people, shipowners flying the American flag must fight hard for their profits. Mushrooming inflation. . . escalating costs for bunkers and other operating necessities. . . new technology. . . reduced credit lines, all eat into a shipowner's reserves and affect his cash flow. This is why, in terms of P&I Insurance, I am pleased to be a member of the American Club."

A Turning Point: Six New Members

These efforts finally paid off in February 1975 when the Club experienced a small burst of growth: six new members signed on and the Club's entered tonnage doubled to 3.4 million. After years of struggle, the Club was on its way to a brighter future.

The new members were noteworthy in several ways. Prudential Lines had joined the Club in 1940 and had left in 1970. Rejoining in February 1975, it was the first Marsh & McLennan client to sign on following the mass defections of 1971 and signaled Marsh's renewed willingness to place business with the Club.

Waterman Steamship Corporation was represented by broker Fred S. James & Co., which until then had never placed a client with the Club. Also new was States Steamship Company, the first client of broker Frank B. Hall & Company to join the Club.

Moreover, the Club displayed some newfound competitive muscle by winning business from the British clubs. Among the six new members, Union Carbide had previously been insured with the London Club, Waterman Steamship with the Britannia Club, Prudential with the UK Club and States Steamship with the West of England Club. Some of the new members placed only part of their P&I coverage with the American Club and left the rest in London. Nonetheless, winning even a modest amount of business from the British clubs was a heartening turn of events for the American Club, which had been on the brink of death just a few years earlier.

ABOVE: Waterman Steamship Corporation was one of six companies to join the Club in 1975. With these new members, the Club doubled its entered tonnage and began to emerge from the difficult times of the early 1970s.

LEFT: This prototype ad, shown at an early layout stage, was part of a campaign launched by the Club in 1974 in an effort to attract new members.

Insuring Foreign Tonnage

In December 1973 the directors finally bowed to reality and voted to admit foreign-flag members. Cassedy says many of the directors still believed it was patriotic for an American Club to insure American vessels exclusively. However, they realized the world was changing and the Club needed to attract non-US members to prosper. They gave their approval after being assured that the Club would be "extremely selective and endeavor to quote only on fleets that either were world famous or had identity with the United States," according to the board minutes.

The Club did not enlist its first foreign member, Netumar Lines of Brazil, until 1980. Nonetheless, the decision to go global had been made. As of 2016, members domiciled outside North America accounted for nearly 90 percent of entered tonnage, highlighting the importance of the decision reached in 1973.

Continuing Reinsurance Saga

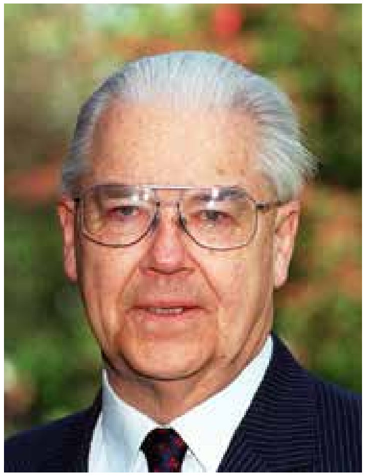
Even though the Club's outlook was suddenly brighter in 1975, one nagging issue did not go away: how to resolve its reinsurance problems. Reinsurance was a constant topic at board meetings throughout the 1970s.

In 1971, the directors proposed a then-novel solution: they would seek to reinsure the American Club with one of the British clubs, and the British club would in turn place the coverage in the International Group pool. In this way, the Club could access the pool indirectly and obtain reinsurance on terms similar to those available to the large British clubs.

Jack Robinson of J&H and two of the Club's directors—Adolph Kurz of Keystone Shipping and Howard Lucas of American President Lines—flew to London in September 1971 to seek out a club willing to take part. The trip was a great success.

ABOVE: Walter Gainsbury was one of three founders of Netumar Lines of Brazil and became the first non-US director of the American Club in 1980, when Netumar joined the Club and entered 12 ships.

LEFT: Netumar's ships often visited the Great Lakes, carrying cargo between the US and Brazil. One reason the company joined the American Club was to support its business presence in the US. The *Henrique Leal* is pictured upbound (toward the Great Lakes) on the St. Lawrence River in 1984.



ABOVE: Frederic Jan Thesiger, 3rd Viscount Chelmsford, of British insurance broker Willis Faber & Co. joined the American Club's negotiating team when it sought a new source of reinsurance in London in 1971.

On arriving, they met with senior executives of Willis, Faber & Co., J&H's British correspondent, and found that Willis was "eager to support our cause," according to Robinson. Frederic Jan Thesiger, 3rd Viscount Chelmsford—a well-known Willis Faber broker whose grandfather had been viceroy of India—agreed to join them in their meetings with UK clubs, adding some British cachet to their negotiating team.

The group of four—Robinson, Kurz, Lucas and Lord Chelmsford—met initially with Richard Fort of the West of England Club. "Mr. Fort recognized our problem and, more important, recognized the reasons for, and the desirability of, an American market and our American Club," Robinson wrote. Fort agreed to quote a price for reinsurance once he received additional information from the Club.

The next day they met with John Henderson of the UK Club and found his response to be equally positive. Henderson suggested that a three-club consortium—the UK, the West of England and the Standard—might reinsure the American Club.

They concluded their meetings by dining with the Club's existing reinsurer, Lloyd's underwriter Peter Green, who was "very cordial" and "sympathetic" to the Club's problems, Robinson said. Although Green had been rankled by the Club's abrupt drop in tonnage a few months earlier, he now assured his visitors that "whatever happened in the past is as dead as a dodo." He said the Club could probably buy reinsurance less expensively from a British club and even offered to introduce Robinson and his colleagues to the managers of the Britannia Club, which he thought might be interested. (Such a meeting never took place because of time constraints.) But no matter what happened, he said, he would continue to reinsure the American Club if it needed him to do so.

On returning to New York, Robinson wrote, "The meetings were most worthwhile, well-timed and proved encouraging beyond expectation. We think active pursuit and diligent follow-through can assure the American Club's existence and put it on an equal footing with the British Clubs."

Negotiations continued back and forth across the Atlantic by cable and letter for the next several months. By August 1972, the West of England had emerged as the leading candidate to reinsure the American Club. Robinson flew to London that month to finalize a contract, although he made clear that a few "procedural difficulties" still had to be ironed out.

But those "difficulties" proved to be insurmountable. Robinson and the American Club's directors had not initially realized that the Club would have to comply with the so-called "gentlemen's agreement" of the International Group if it wanted to buy reinsurance from the West of England. The unwritten agreement was the predecessor of today's written International Group Agreement. Among other provisions, it governed the quotation procedures and conditions for transferring vessels from one club to another.

Louis Gusmano, the American Club's general counsel, was uneasy about the agreement and advised the Club not to acquiesce to it—and the Club's directors felt they had no choice except to follow his advice. So it was with great disappointment that they declined to accept the International Group agreement and, instead, walked away from their anticipated deal with the West of England.

"For the next 17 years," McGowan says, "the Club continued to buy its reinsurance independently and pay a higher price than it would have through the group." Not until 1989 did the Club gain access to the International Group pool, an objective that seemed so tantalizingly near, yet proved so frustratingly far, in 1972.

Trailing the Competition

When a hoped-for agreement with the West of England fell through, the Club turned to Green and took him at his word that he would renew the Club's coverage, which he did. He recruited another Lloyd's underwriter, Peter Cameron-Webb, the Club's previous reinsurer, and the two of them jointly reinsured the Club for the next decade, with one small wrinkle: beginning in 1976, the Club placed five percent of its reinsurance with Mutual Marine Office Inc. in New York. The goal in doing so was to try to temper the price increases sought by Green and Cameron-Webb. In a memo to the Club's directors, Cassedy said the arrangement "serves to our advantage by providing in the American market a competitive influence upon the London reinsurers."

Not only did the Club pay more for reinsurance than did its British counterparts during the 1970s, but it trailed in the amount and types of P&I insurance it could offer to its members. As the decade began, both the American Club and the British clubs provided a maximum $5 million coverage per occurrence for American-flag vessels. (The British clubs offered higher limits for flags of other nations). By 1977, the British clubs had increased their coverage for American-flag ships to $200 million, and to unlimited coverage the following year, made possible by their ability to obtain reinsurance through the International Group. The American Club, without access to low-cost group reinsurance, couldn't keep pace: it remained stuck at $5 million until 1977 and eventually reached $150 million in 1980, still lagging the Brits.

Reinsurance problems also thwarted the Club's attempts to provide liability coverage for oil spills from tankers, a critically important product following the *Torrey Canyon* disaster in 1967. The *Torrey Canyon* was a supertanker that ran aground off the British coast, resulting in the world's largest oil spill to that time. The British government tried all kinds of unusual ways to contain the spill—including

BELOW: **After the grounding of the oil tanker *Torrey Canyon* off the Cornish coast in 1967, resulting in a major oil spill, oil pollution coverage became an important part of P&I insurance. The ship is burning because the Royal Air Force attempted (unsuccessfully) to stop the spread of the spill by bombing and napalming the stranded vessel.**

sending warplanes to bomb and sink the stranded ship and using napalm to try to get rid of the oil by burning it—but to no avail. The spill eventually fouled hundreds of miles of British, French and Spanish coast.

The American Club did not insure the *Torrey Canyon*. But it was rattled by the event, as were all the P&I clubs. P&I insurers were not only "stunned" by the "gigantic size" of the oil spill, the *Wall Street Journal* reported, but were worried that future oil spills might be even larger as tankers got bigger. The *Journal* said the median size of a tanker in the late 1940s was 10,000 deadweight tons. By 1962, the median was 35,000 deadweight tons. The *Torrey Canyon* was 118,000 deadweight tons, and bigger ships were under construction.

Prior to *Torrey Canyon*, oil-spill cleanup costs were not specifically indemnified by P&I insurance. However, the European clubs now began offering such coverage in response to a rising chorus of demand from their members. Oil tankers accounted for nearly half the tonnage entered in the American Club. In spite of this tonnage, the American Club—unlike its European rivals—could not offer oil-spill liability coverage because it couldn't find reinsurance to support the writing of the risk. As a result, members of the American Club were forced to look elsewhere for their coverage and, in most cases, bought it from the International Tanker Indemnity Association in Bermuda.

LEFT: The 212,000-ton Chevron tanker *John A. McCone,* launched in 1969, was one of the first ships in a new generation of supertankers. As oil tankers became larger, demand for P&I coverage increased.

The situation galled the directors of the Club. Here was a product that many of the members needed. Year after year, however, the Club sought fruitlessly to obtain the reinsurance that would allow the Club to offer it. The board minutes for February 1980 state, "The Secretary reported that all efforts to obtain satisfactory reinsurance necessary to offer oil pollution liability coverage for tankers proved unsuccessful. The International Tanker Indemnity Association, whose president had indicated a willingness to enter into an agreement with the Association, overruled its president and elected to offer terms which were unacceptable to the managers. Likewise, the Association's primary reinsurer, Mr. Peter Green, failed to offer suitable terms and rates. As a result, the Association will not be able to offer oil pollution liability coverage to tanker owners for the 1980/1981 insurance year."

"An Institution Worth Saving"

And yet, despite all these problems—including high reinsurance costs, a shrinking American-flag fleet and an inability to insure tanker pollution liabilities—the Club somehow survived and even grew a bit during the 1970s.

In 1983, Cassedy looked back at his early years as secretary in a speech to the Club's directors. "Some of you lived through, as *Seatrad*e magazine described them, the doldrums of the American Club," he said. "I'm speaking of the early '70s when the tonnage of the Club was at its lowest point, 1,416,120 tons. Imagine that for a moment—1,416,120 tons—kind of scary, isn't it?"

He said some competitors had predicted the Club would collapse. "However, that's not the way it turned out," he noted. "The directors in the early '70s decided that the Club had much going for it, provided a service unlike anything available in London and was an institution worth saving."

One of the strengths of the Club—a central factor in attracting and retaining members—was its excellent claims service. Shipowners Claims Bureau handled claims not only for the American Club but also settled claims in the United States for two large Scandinavian clubs, Skuld and the Swedish Club. In addition, it was the New York area claims correspondent for the London Club. Its longstanding relationships with three major European clubs were a testament to its claims-handling skills.

Sidney Wolfson managed the claims department in the 1970s. He had entered the merchant marine in 1937 at age 18 and had served as an officer on various ships during World War II before joining Shipowners in 1946. He was a tough boss who could be abrasive. But he was extremely capable and was greatly respected by the Club's members, many of whom addressed him as "Captain Wolfson" because of his service as a merchant mariner. "Sid was the finest claims adjuster I've ever known in my life—just the knowledge he had and his understanding of how to settle a claim," Bill Craig, a retired Shipowners senior vice president, says.

Nonetheless, one problem remained as daunting as ever: high reinsurance costs. As the 1980s began, the Club's directors looked longingly across the Atlantic to the International Group pool. Gaining access to the pool, they realized, was the only way the Club would ever obtain reinsurance on terms equal to those available to the British clubs.

ABOVE: William Craig joined Shipowners Claims Bureau, the American Club's manager, in 1984 and was senior vice president and manager of the claims department when he retired in 1999.

BELOW: Shipowners provided claims-settling services in the US to the Swedish Club, Skuld and the London Club, an indication of the high esteem in which its claims services were held.

CHAPTER EIGHT

Asbestos Claims Dilemma, and Solving the Reinsurance Riddle

Against all odds, a small group of loyal members had kept the American Club alive during the 1970s because it served their needs. But mere survival wasn't enough. Other P&I clubs were outstripping the American Club. Skuld's tonnage had *increased* sevenfold between 1947 and 1972 while the American Club's tonnage had *decreased* 60 percent in the same period.

As the 1980s began, the task of revitalizing the Club fell to a new team of leaders. Adolph Kurz gave up the chairmanship in 1979 at age 62, although he remained deeply involved as deputy chairman for the next several years. However, the board wasn't exactly embarking on a youth movement. Kurz was succeeded as chair by 70-year-old Thomas J. Smith, president and CEO of Farrell Lines, one of the Club's largest members.

PRECEDING PAGES: The Lloyd's of London building, viewed from across the street, was completed in 1986 and is "universally recognised as one of the key buildings of the modern epoch," according to Historic England.

ABOVE: Tom Smith was the longest-serving chairman in American Club history, holding the position for 15 years from 1979 to 1994.

ABOVE RIGHT: Under President Reagan, the federal government reduced its financial support for the maritime industry and sought to revitalize the industry through deregulation. A Reagan ally said, "Subsidies' effect on the maritime industry has been like giving free dope to a junkie."

Tom McGowan describes Smith as "a gentleman" who was highly respected by fellow board members. He was tall, quiet and laid back, but could be tough when necessary. "Tom Smith ran the board meetings forcefully," McGowan says, "allowing discussion on any issue brought up by a director but never letting things get out of control."

Smith had begun his career on the New York docks, working as a checker inspecting cargos. He became a pier superintendent for Farrell Lines in 1942 and advanced through a series of positions to become president in 1968.

In 1980, one year after being elected chairman of the American Club, he retired from Farrell Lines but continued as chairman of the Club until 1994, when he turned 85. His 15-year tenure was the longest of any chairman in the Club's history. It is unusual but not unique for a retiree to head the Club's board.

Governing the Club was not easy. Smith occupied the chairman's seat in a period of major change, including further contraction of the American-flag fleet, the Club's initial attempts to gain foreign-flag tonnage, continued reinsurance problems and the sudden rise of asbestos claims.

As the American fleet continued to decline, the industry experienced a new round of bankruptcies in the 1980s, including Waterman Steamship Corporation, Prudential Lines and United States Lines, all of which had been members of the Club. Moreover, the political environment changed abruptly with the election of Ronald Reagan to the presidency in 1981. Reagan was an outspoken advocate of free markets. Under his leadership, the federal government trimmed its financial support for the industry and tried to breathe new life into it through deregulation. A Reagan ally explained, "Subsidies' effect on the maritime industry has been like giving free dope to a junkie."

Deregulation may have made sense in theory. But in practical terms, the American merchant fleet continued to be battered by high operating costs, labor disputes, overcapacity and global competition. Deregulation did little to solve those problems. Even some of the oldest and most successful operators were now struggling. Farrell Lines—the largest privately owned American-flag carrier, where Smith had spent his career—cut back sharply to just four ships in 1991 from 44 a decade earlier. "We are having a rough time," a Farrell Lines spokesman acknowledged.

The American Club had not yet landed large amounts of foreign-flag business. As a result, its fortunes remained closely tied to the health of the American merchant fleet in the 1980s and early 1990s. "The decline of the US shipping industry hurt the Club badly," Vincent J. Solarino, president and COO of Shipowners Claims Bureau, says.

In the face of these challenges, the directors of the Club rallied around Smith because of his leadership abilities, deep knowledge of the maritime industry and willingness to spend whatever time was necessary on Club matters. "I suppose the fact that he was retired allowed other directors, who were still working, to endorse his role," McGowan says.

Smith was an avid golfer. McGowan—who was Club secretary for much of Smith's tenure as chair—says, "He was always available to me and we met often at one of his favorite venues, Hackensack Country Club."

Cassedy, Henry and McGowan

Smith worked with three different secretaries during his years as chairman: Jack Cassedy, James Henry and Tom McGowan.

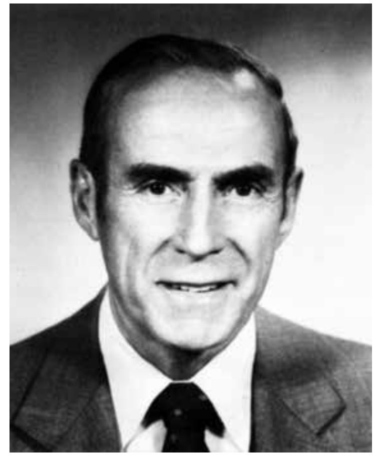
Cassedy was secretary of the Club and president of Shipowners until 1981, when J&H named him to the presidency of Willcox, its reinsurance brokerage subsidiary. He was succeeded in his positions at the Club and Shipowners by Jim Henry.

Henry was a Long Island native who had served as an army officer in California during World War II. After the war, he hired on as an underwriter with Fulton P&I Underwriting Agency, a for-profit competitor of the Club. He joined Shipowners Claims Bureau when Fulton P&I went out of business in 1966 and eventually became Shipowners' senior vice president in charge of underwriting before becoming president. He was fun-loving and personable and was always enjoyable to be with. "Jim had a great sense of humor and laughed very easily," McGowan says. "He used to regale us with stories about leading his company down the streets of Carmel [a California resort town] in parades during the war."

Henry was essentially an interim choice for secretary. He was 62 years old in 1981 and said he would serve for a year or two, after which he would retire. He did just that, retiring in 1983.

McGowan then took over both positions and continued as secretary for 17 years. McGowan graduated from Rutgers University in 1964 and was a navy salvage diver after college. On completing three years of military service, he joined Johnson & Higgins as a marine insurance broker and spent his entire career with J&H and Shipowners.

McGowan transferred to Shipowners almost by happenstance. In 1977, Cassedy—with whom he was friendly—was seeking to bolster Shipowners' underwriting staff and asked if McGowan was interested. Working at Shipowners had pros and cons. On the positive side, it offered a chance to



TOP: James Henry was secretary of the American Club and president of Shipowners Claims Bureau from 1981 to 1983.

ABOVE: Tom McGowan succeeded Henry in both positions and continued as secretary of the Club and president of Shipowners for 17 years.

ABOVE: Greece is very important to the American Club. The Club began to actively seek members there in the 1980s. Those efforts were successful over time; today Greek ships represent a major portion of the Club's tonnage. Pictured is Piraeus, the nation's chief port.

assume responsibility quickly in a separately managed subsidiary. But Shipowners was located at 25 Broad Street in downtown Manhattan, a few blocks from J&H's headquarters. Not only were its offices set apart from those of its J&H parent, but its P&I business was outside the mainstream of J&H's insurance brokerage activities. As a result, those who worked there had relatively little visibility within the parent company. "I thought about it overnight and decided, 'Why not?'" McGowan says. "I moved over in early February 1977 and got heavily involved in the renewals."

The Club still had a desperate need for marketing to help build its membership. McGowan says of himself, "I'm not a salesman type person. I'm more a technical person." Nonetheless, he rose to the challenge and sought, in particular, to add new members in Greece. "I went to Piraeus in the 1980s and visited with shipowners," he says. He was helped by George Holloway, a broker with Frank B. Hall. "Frank B. Hall had a lot of Greek business," McGowan says. "George gave me letters of introduction to Greek shipowners. We didn't get much business initially, but I didn't expect to." He says the goal was to build relationships—and, in fact, those relationships began to pay off with new business in the 1990s.

Cassedy, Henry and McGowan were a team. "We were the best of friends," McGowan says. "We worked well into the night each year at renewal time. But we laughed a lot and had great fun with the brokers. You had to laugh because renewals are so stressful."

Even though Cassedy resigned as secretary in 1981, he remained involved with Shipowners and the Club. J&H appointed him to the newly created position of chairman of Shipowners, in addition to naming him president and COO of Willcox. Concurrently, J&H transferred the ownership of Shipowners to Willcox. Until then, Shipowners had been a direct subsidiary of J&H. Following the transfer, it was a sub of a sub and was far removed from the days when it commanded the close attention of J&H senior management.

In explaining the new arrangement, Cassedy says, "J&H wanted me to retain a relationship with the Club's directors, who knew me and were comfortable with me." Although he oversaw Shipowners in his new position as chairman, he was not involved in its day-to-day management, which was the bailiwick of McGowan.

Cassedy continued in his dual role for five years. In 1986, he left Willcox and returned full time to Shipowners, becoming CEO as well as chairman. Cassedy and McGowan jointly ran Shipowners until 1993, when Cassedy retired. Cassedy says he loved the P&I business and tried to buy Shipowners from J&H, but a deal never happened because the asking price was too high.

These three men—Cassedy and McGowan and, for a briefer period, Jim Henry—were the movers and shakers at Shipowners and the Club for well over two decades until Joe Hughes, the current secretary, took charge in the mid-1990s.

Asbestos Claims

McGowan's tenure saw a major new phenomenon with significant long-term implications: the filing of asbestos-related claims by mariners.

For years, asbestos had been used in hundreds of applications from building products to lawn furniture. *Earth Science Digest* called it a "miracle mineral" because of its exceptional resistance to heat and fire. *Popular Mechanics* predicted in 1929 that women would soon be adorned in "dresses of asbestos that will be as lustrous as silk and will give long wear." Congress even mandated the use of asbestos insulation in American ships following the burning of the *Morro Castle* in 1934. Because of this federal mandate, nearly every American oceangoing vessel built from the early 1930s through the 1960s used asbestos in its boilers, turbines, steam-pipe coverings and other equipment.

But the miracle had a dark side. By the 1970s there was a growing body of medical evidence that persistent inhalation of the mineral could result in various illnesses, including asbestosis (a scarring of the lung tissue) and mesothelioma (a form of lung cancer).

Asbestos-caused illnesses were foremost a human health tragedy. At the same time, they raised important P&I insurance issues. Many shipowners, particularly those in the United States, began to receive claims from mariners who said they had suffered from exposure to asbestos on ships. The costs of the claims were especially great for the American Club because of the relative generosity of US jury awards.

ABOVE: Shipyard workers pose in asbestos suits, intended to protect against heat and flames, in 1942.

LEFT: Workers remove asbestos insulation from a ship in 1978. Asbestos, once considered a miracle fiber, was identified as a carcinogen in the 1970s.

Asbestos-related claims came suddenly to the fore in the 1980s. The Club reimbursed its first asbestos-related claim in 1980, for a mariner who had served on a Farrell Lines ship in the 1950s and 1960s.

The Club reimbursed its first asbestos-related claim in 1980, for a mariner who had served on a Farrell Lines ship in the 1950s and 1960s. "Asbestos claims came up suddenly," McGowan says. "They weren't an issue, and two years later they were an issue." By 1987, the Club had paid 127 claims and its members were processing "at least 1,400 others," according to the board minutes.

The Club reimbursed numerous asbestos-related claims without controversy. However, claims submitted by former members raised a special set of concerns, reflecting the long lead times between exposure to asbestos and the onset of disease, as well as the importance of verifying the validity of each claim.

Dick Brown, the American Club's general counsel from 1982 to 2002, notes that asbestos-related illnesses seldom manifest themselves until 20, 30 or even 40 years or more after exposure. Consequently, the Club and its members didn't know the claims existed when exposure took place and hadn't set aside sufficient reserves to pay them, posing novel financial and legal challenges.

Initially the Club paid asbestos-related claims out of its general reserves. However, this meant that current members were footing the bill for claims that had been incurred years earlier by some companies which no longer belonged to the Club. The insurance years in question had long since been closed, and it would have been difficult if not impossible to reopen the books for those years and attempt to assess the former members retroactively. As the number of asbestos-related claims from former members increased, the Club struggled to pay them—so much so that the claims eventually became "a Club-killing threat," in the words of Vince Solarino.

Prudential Lines' Bankruptcy and Its Fallout

Closed insurance years and other issues came sharply to the fore after Prudential Lines entered Chapter 11 bankruptcy in 1986. The bankruptcy led to one of the most tangled legal episodes in the Club's history.

Prudential Lines had been founded in 1933 by Stephan Stephanidis, a Greek immigrant, as a tramp steamship company with one antiquated freighter. It operated ships for the WSA during World War II and grew modestly after the war. When Stephanidis died in 1960, the company was acquired by Spryos S. Skouras and his family. Skouras, a Yale graduate with extensive interests in the steamship and motion picture industries, became a director of the American Club.

By 1965 Prudential owned five World War II Victory ships and that year launched two cargo vessels, the *Prudential Seajet* and *Prudential Oceanjet,* featuring automation that was state-of-the-art for the time. "The new vessels have centralized control systems giving direct wheelhouse speed control," the *New York Times* reported. "Commands from the wheelhouse to the engine room are recorded by an automatic bell log, while a data log records responses to the commands, such as changes in steam pressure, revolutions and speed." Both vessels were entered in the Club.

Like many American-flag lines, Prudential was heavily subsidized by the federal government. By 1981, it had received $548 million in subsidies over its 48-year history, according to a government report, including $14 million in 1981 alone. Despite these subsidies, it struggled to make ends meet, reflecting the problems afflicting many US steamship companies. Skouras expressed optimism even after the company missed a $1 million mortgage payment in 1981. "The challenges of this industry have always excited me, in good times and bad," he said. "I have faith in the long-term outlook."

But Prudential's financial woes only worsened, and in 1986 the company was thrown into involuntary Chapter 11 bankruptcy by three of its creditors, "marking yet another turn in the odyssey of the financially troubled carrier," the *Journal of Commerce* wrote.

Prudential had been a member of the American Club in 1940–1970 and 1975–1986. By the time of its bankruptcy, asbestos-related claims were sharply on the rise. So its bankruptcy trustee created a PLI Disbursement Trust to collect asbestos-related damages from insurers and disburse the monies to claimants. Meanwhile, a Detroit class-action lawyer named Leonard Jaques formed the Maritime Asbestos Legal Clinic (MALC) and flooded companies and the courts with claims on behalf of former mariners who, he alleged, had been harmed by exposure to asbestos. He submitted more than 5,000 claims to Prudential. In the case of bankrupt former American Club member United States Lines, he submitted more than 20,000 claims and was

LEFT: The ***Prudential Oceanjet*** **(which was insured by the American Club) highlights some of the dramatic changes in the maritime industry after World War II. Few ships were built in the US immediately after the war, but a new round of shipbuilding began in 1953, aided by federal construction and operating subsidies. The** ***Prudential Oceanjet*** **was a government-subsidized "break-bulk" freighter—that is, cargo was loaded onto her on pallets or in bundles, not in large containers. However, break-bulk ships proved to be inefficient as containerization swept through the industry. This inefficiency, together with the curtailment of federal maritime subsidies under President Reagan, resulted in the scrapping of the** ***Prudential Oceanjet*** **in 1981, just 14 years after she had been launched.**

Maritime companies and the courts were overwhelmed with asbestos-related claims. When a law firm submitted more than 20,000 claims with little supporting evidence, it was chided by a federal appeals court which said the firm seemed to think "the sheer volume of claims would force a settlement."

chided by the Second Circuit US Court of Appeals for pursuing an approach "that was apparently premised on the theory that the sheer volume of claims would force a settlement without producing the additional documentation" required by a court order.

As discussed in Chapter Five, most P&I clubs have a "pay to be paid" clause: a member company must pay claims out of its own pocket and is then reimbursed by the insuring club. For the American Club, "pay to be paid" is contained not only in the Club's rules but is also written into New York State law.

Prudential did not have enough money to pay asbestos-related claims after it went bankrupt. Nor did it have the funds to investigate each claim thoroughly and establish its validity, as members are supposed to do. So the bankruptcy trustee and MALC worked together to overcome these potential hurdles. The trustee agreed to pay a specific amount for each category of disease. And he found a way to sidestep the "pay to be paid" rule by recycling $300,000. The money was credited to the account of a MALC claimant who simultaneously returned it to the trustee as a nonrecourse loan so it could be used to pay the next claim and so on. "The Trustee recycled the $300,000 over and over until the Trustee owed $13 million to the claimants on nonrecourse loans," a federal appeals court noted.

A federal bankruptcy court approved the recycling plan and in August 1993 ordered the Club to indemnify Prudential for $13 million. "The wheels continued turning, and on September 27, 1993, the bankruptcy court entered a [further] partial judgment requiring that the American Club indemnify Prudential for $66.16 million in such claims," the appeals court pointed out.

Brown says the $66.16 million judgment was "a shocker" and led some people to think, "There goes the American Club." The $66.16 million was a partial judgment based on an initial group of claims submitted by MALC. If the $66.16 million were upheld, and if the trustee and bankruptcy court were to approve all 5,000 MALC claims, the Club faced the prospect of having to reimburse Prudential for hundreds of millions of dollars of alleged asbestos-related personal injuries. "Fortunately," Brown says, "the $66 million judgment was thrown out on appeal by the federal district court."

The Club had sought to examine and verify each claim in the $66.16 million judgment, as was its right, and said the trustee and bankruptcy court had not allowed it to do so. Moreover, it said it believed the claims "were not worth the settlement amounts agreed to by the trustee, or anywhere near such amounts," based on the limited amount of information it had received. The district court concurred, ruling that there was "little to no information with which to evaluate" the claims. The bankruptcy court then withdrew the judgment and acknowledged that the $66.16 million may have been excessive and premature. The directors and members of the Club breathed a collective sigh of relief.

Those early court rulings were just the beginning of a long and tortuous process to sort out thousands of claims submitted not only by Prudential but also by dozens of other former members. Asbestos-related claims and the knotty issues they involved—including which claims were legitimate, which were not, the true value of legitimate claims, how to allocate money to pay them and how to do all this while meeting the needs of mariners who were actually entitled to compensation—hung over the Club like a cloud for more than two decades.

In 2008, the Club finally arrived at a way to satisfy the claims, preserve its solvency and not impose an excessive burden on current members who were being asked to pay the claims of past members—but that's a story for Chapter Ten.

A Changing P&I Market

After having grown robustly in terms of entered tonnage during the early 1970s, the Club hit a rough stretch beginning in 1977. Entered tons reached 5.0 million in 1977, then turned downward and remained stuck within a range of 3.9 million to 5.1 million for the next 18 years. John Sandercock says, "The Club was struggling a bit, but there wasn't any sense that it might go out of business."

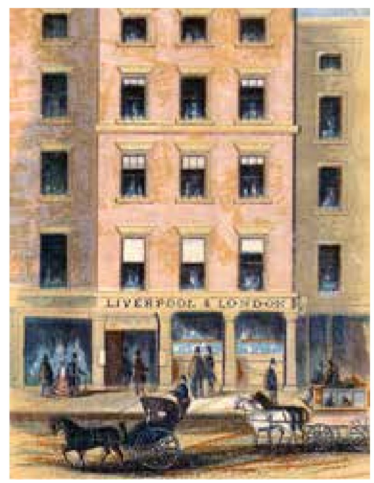
The P&I market was becoming more demanding and competitive, as was true of many other service businesses such as law, accounting and investment banking. In 1992, the *New York Times* observed, "Client loyalty is no longer ironclad. . . and once-gentlemanly competitors have no qualms about swooping down on adversaries." Although the *Times* was referring to changes taking place in the legal profession, the same words applied equally well to the P&I market.

As competition intensified, many smaller P&I clubs ceased operations, including Oceanus in 1984, Sunderland in 1990, Newcastle in 1998 and Ocean Marine in 1999. When the South of England P&I Club went belly up in 2011, *Maritime Advocate* said the P&I market is "very demanding" and "only the very long term players. . . can really cope." But longevity alone did not guarantee success. The Liverpool & London Club had a storied 119-year history and had insured the *Titanic*, the *Queen Mary* and other famous ships, yet it ceased underwriting in 2000 after experiencing large claims costs and a severe drop in entered tonnage.

The American Club, itself a small club, stayed alive by meeting the needs of its American-flag members. However, the demise of many other small clubs made

LEFT: A brochure emphasized that joining the American Club offered special advantages to American shipowners.

BELOW: The Liverpool & London, one of the oldest and most storied P&I clubs, ceased underwriting in 2000 in a period of turmoil and consolidation in the P&I market.



ABOVE: The Club thought about changing reinsurers in 1980 after William Maitland became head of the Janson Green syndicate, its longtime reinsurer at Lloyd's. But it stuck with Janson Green after a broker warned that loyalty is very important in reinsurance relationships and "the strength, capacity and influence of Bill Maitland should not be put aside without substantial justification."

BELOW RIGHT: Standard Oil Company of Ohio (Sohio) joined the Club in 1982. Pictured is the tanker *Sohio Resolute.*

clear that the Club needed to find a way to join the International Group if it expected to reduce its reinsurance costs, increase its tonnage, expand globally and survive long term.

The Club had many important new-business wins in the 1980s and early 1990s, including Standard Oil Company of Ohio (Sohio), which entered eight Alaska crude oil tankers in the Club in 1982, and Hollywood Marine, one of the largest operators of tank barges in the United States, which entered its entire fleet in 1986. Sohio came to the American Club from the UK Club and Hollywood Marine from the West of England.

The Club also enjoyed some initial success in attracting foreign-flag tonnage, beginning with Netumar of Brazil in 1980. Trade and Transport Inc. became the first Greek-flag member in 1985, opening the way for the many Greek members the Club has today.

But there were setbacks as well. Sandercock, who joined Shipowners Claims Bureau as an underwriter in 1986, notes, "My first renewal in 1987 was difficult. We lost a Great Lakes fleet, Oglebay Norton, to Steamship Mutual. We lost a tanker fleet, Sabine Towing & Transportation, to Steamship Mutual. And we almost lost Keystone to Joe Hughes at Gard. Losing Oglebay and Sabine was a blow because both of them held seats on the Club's board of directors."

As it struggled to grow, the Club faced the same problem it had faced for more than two decades: high reinsurance costs, which undercut its competitiveness.

The Janson Green syndicate at Lloyd's continued to be the Club's primary reinsurer. Beginning in 1980 the syndicate was headed by William Maitland, who succeeded Peter Green. The Club thought about changing reinsurers after Maitland took charge, but Gilbert Dunham, a marine insurance broker at Johnson & Higgins, warned against doing so. He said loyalty was very important in reinsurance relationships and that "the strength, capacity and influence of Bill Maitland should not be put aside without substantial justification." Dunham also said, "Simply put, if the fortunes of the American Club should change and deteriorate, his support, as it has been in the past, may prove very important and comforting."

The Club's reinsurance premiums declined between 1979 and 1982, reflecting a "soft" reinsurance market, reduced tonnage entered in the Club and larger deductibles taken by members. But then the

market hardened, and its reinsurance costs soared—from $3.0 million in 1983 to $6.5 million in 1987. "Such an expense has an extremely deleterious effect on the Association's rates, assessments and our ability to attract new members," the directors' minutes stated.

Sandercock says 1987 was "something of a watershed." Difficult reinsurance negotiations that year with Janson Green, together with what he describes as "aggressive competition from International Group clubs, principally Steamship Mutual and Gard," prompted the Club to revisit the issue of how to gain access to the group. "We realized we had to do something," he says.

Winning Entry to the Group Pool

McGowan picks up the story. "In 1987," he recalls, "I went to the finance committee and said, 'Look, guys, if you want this Club to continue, we must change our reinsurance arrangements. We are paying way too much for reinsurance.' I knew we could save a lot of money if we became members of the group."

McGowan and the finance committee laid out a two-step plan. First, the Club would seek access to the International Group pool through an intermediary by purchasing reinsurance from a club that belonged to the group. Once that goal was accomplished, the Club would seek to become a full member of the group with direct participation in the pool on equal terms with the European P&I clubs.

In fact, the Club succeeded, achieving full membership and sharply reducing its reinsurance costs. However, it would take 11 years to get there, traveling along a road filled with twists, turns, bumps and surprises.

The International Group had 15 members in 1987. McGowan and Jack Cassedy—who was now active again in the management of the Club—began by identifying three of them, the Britannia, UK and London, as likely candidates to reinsure the American Club. They approached the Britannia first. "Britannia was by far the most solid of clubs," Sandercock says. "They had oodles of money. So they would have been anybody's first choice in terms of picking a reinsurer." Britannia considered the request for several weeks before saying no.

Spurned but not discouraged, McGowan and Cassedy then approached the UK and London clubs. The UK Club already provided support to the China P&I Club and said it didn't want to reinsure the American Club as well. But McGowan and Cassedy found a willing partner in the London Club. The London Club was expanding globally, having opened offices in Hong Kong in 1976 and Piraeus in 1981. Reinsuring the American Club meshed nicely with its global strategy by giving it a large, immediate infusion of American-flag tonnage and premium as a reinsurer.

Moreover, the two clubs already knew each other through an existing relationship. The American Club's manager (Shipowners Claims Bureau) was the claims representative for the London Club in New York, and the London Club's manager (Bilbroughs) handled claims for the American Club in London. In addition, Brian Brooke-Smith, the senior director of Bilbroughs, knew many of the directors of the American Club and became an ally of the Club in its efforts to access the pool. McGowan says, "Brooke-Smith was the right man at the right time." Or as

"Look, guys, if you want this Club to continue, we must change our reinsurance arrangements. We are paying way too much for reinsurance."

ABOVE: The American Club's Jack Cassedy, left, and Tom McGowan, center, chat with John Hawkes, senior director of Bilbroughs, managers of the London Club, at a reception in 1991. The two clubs have a long relationship dating back to 1917, when the newly formed American Club based its rules and by-laws on those of the London Club and purchased reinsurance from it.

Cassedy puts it, Brooke-Smith was "our knight in shining armor."

Negotiations moved ahead fairly quickly, and an agreement was reached in August 1987. McGowan says the American Club had been prepared to pay up to 90 cents a ton for reinsurance from the London Club. To his delight, the London Club quoted a price of only 67.5 cents a ton. He says he kept a poker face when officials of the London Club offered that rate at a meeting. But his demeanor changed once the meeting was over and he and Cassedy were alone. "I couldn't contain myself," he says. "I told Jack, 'We pulled off the deal of the century!'" (The London Club made out well despite the bargain price. Under the terms of the agreement, the American Club was to receive a partial refund of its premium payments if its cumulative loss ratio was less than 60 percent in the first 10 years. Its loss ratio ended up meeting that standard, and the London Club earned enough money from the program to give the American Club a $7.5 million refund in 1999. The London Club knew what it was doing in quoting 67.5 cents a ton.)

McGowan and Cassedy spelled out the terms of the deal in a memo to the American Club's directors:

- The Club would pay the London Club $4.5 million for reinsurance the first year, compared with the $6.5 million it was paying to Janson Green.
- While paying less, it would get more. The Club, through its existing program with Janson Green, could insure its members up to a maximum of $375 million per occurrence. It would now be able to offer unlimited coverage through its participation in the pool.

ABOVE: A lab technician with the Fuel Oil Testing unit of the American Bureau of Shipping tests a ship's lubricating oil to be sure it doesn't contain excessive acid. The maritime industry has invested heavily in environmental testing and compliance programs as regulatory demands have increased.

- Equally important, the Club would be able to offer oil pollution coverage for the first time, up to a maximum of $400 million per occurrence—again, as part of the group package.
- The memo hinted at further savings in the future. It said the Club could trim its reinsurance bill to about $3.25 million a year if it achieved full membership in the group. No wonder the American Club wanted to join!

But then reality set in: the agreement was subject to approval by a majority of the members of the International Group, and that would not necessarily come easily.

Signing the International Group Agreement

The Club had tried to become a reinsured member of the group before—in 1972 through the West of England Club—but had terminated the negotiations on the advice of its lawyers.

By 1987, the unwritten gentlemen's agreement of the group had been replaced by the written International Group Agreement. Would the Club be required to sign the written agreement to become a reinsured member? The directors and managers of the Club waited for an answer. When December arrived, and the Club still hadn't heard from the group, Cassedy fretted that it was now "the eleventh hour" with "no clear idea of our reinsurance cover for the coming year."

The waiting finally ended on December 9 when the group approved the London Club's application to reinsure the Club. In a congratulatory telegram, D. J. L. "Lloyd" Watkins, secretary and executive officer of the group, welcomed the Club as a reinsured member, "provided you are bound by the International

Group Agreement." In other words, yes, the Club would have to sign.

Watkins was realistic. He understood that the Club needed time to resolve any concerns it might have about the agreement before signing it. So he offered a one-year interim reinsurance plan. He said a coalition of group members—including the London, UK, West of England and Steamship Mutual clubs—was prepared to reinsure the American Club independently of the pool. The coalition would charge a fixed price of $5 million for up to $461 million of coverage per occurrence.

The interim offer caused quite a stir at the next board meeting of the Club. Many of the directors were upset that the offer was considerably less generous than the deal that had already been negotiated with the London Club. One director said he was "outraged" and urged that the board be "fully advised as to the legal options available prior to approving the modified transaction." Cassedy wired Watkins to let him know that the directors were "extremely disappointed."

However, the interim offer was better than the terms available at Lloyd's. Bowing to reality, the directors calmed down and accepted the offer—and the Club set about the all-important task of seeking regulatory approval to sign the International Group Agreement (IGA) so it could purchase reinsurance from the London Club. The Club's very future was at stake.

The European Commission had thoroughly scrutinized the IGA in the early 1980s and had approved the group's use of it beginning with the 1985 policy year. However, the US had not yet provided an opinion. The Club retained attorney Bruce McAllister to seek US approval for the Club to sign the IGA.

The Club took a major step forward in 1989 when it obtained reinsurance from the International Group. *Lloyd's List* wrote, "There is a new kid on the block in the International Group of P&I Clubs."

McAllister spent several months researching the matter before writing to the Justice Department in April 1988. He noted in his letter that the Merchant Marine Act of 1920 "specifically exempts cooperative insurance activities undertaken by marine insurance companies" from federal antitrust laws. He said this statute alone supported the legality of the Club's proposal to join the group as a reinsured member. His letter also contained a detailed analysis of how the IGA works and why the Club wanted to become a reinsured member. He also wrote, "The American Club believes that the same considerations that led the European Community to approve the IGA should lead the Justice Department to recognize the IGA's utility in fostering mutuality and the efficiencies of providing expanded P&I coverage at a lower cost to shipowners and operators."

McAllister asked the Justice Department to state that it would not challenge the Club's decision to sign the agreement and become a reinsured member. The department responded seven months later, saying it had no objection to the Club's doing so. With this important go-ahead, the Club signed the IGA, closed its deal with the London Club and became a reinsured member of the group in February 1989. *Lloyd's List* wrote, "There is a new kid on the block in the International Group of P&I Clubs."

Looking back today, McGowan says the Club "could not have survived as an independent entity" if it had not joined the group as a reinsured member. However, the Club's efforts to become a full member, with voting rights and direct access to the pool, were just beginning.

CHAPTER NINE

A New Direction: Seeking International Growth

Becoming a reinsured member of the International Group paid off fairly quickly for the Club. Jack Cassedy noted in 1989 that 11 percent of all American-owned oceangoing tonnage was entered in the Club. He predicted the figure would increase sharply as American owners realized that the Club now offered "what other clubs offer—unlimited coverage to each member."

Indeed, the Club enjoyed a mini-spurt of growth. Entered tonnage was 3.9 million when the Club became a reinsured member in 1989. By 1993, the figure was 5.1 million. This was not a huge increase, but at least the Club was expanding.

One of the new members was Standard Shipping Inc., an operator of bulk carriers which joined the Club in 1991 after having previously been insured by the Britannia Club. It entered

PRECEDING PAGES: Tugs ease a ship to a container terminal to unload her cargo.

ABOVE: Paul Sa was chairman of the American Club from 1997 to 2007.

RIGHT: The 1989 *Exxon Valdez* oil spill underlined the potentially huge costs of spills and helped drive demand for oil-spill insurance. The smaller ship is the *Exxon Baton Rouge*, offloading crude oil from the grounded *Exxon Valdez.*

150,000 gross tons, becoming one of the American Club's larger members. Paul Sa, Standard Shipping's president, says of his decision to join the American Club, "The rates were good. The people were friendly. They desperately wanted my business."

It was not long before Sa was elected to the Club's board. Did he ask to become a director? "No," he replies. "I got ambushed by Jack Cassedy and Tom McGowan. They said, 'You're a sizable portion of the Club, you should have a board seat.' I said, 'Fine, why not?'" He says he agreed to join the board partly out of curiosity. "I didn't know the workings of a P&I club," he remarks. "You buy insurance. You don't think about all the calculations and decisions." He became one of the Club's most influential directors, serving on the board for 20 years and as board chairman from 1997 to 2007.

Now that it was a reinsured member of the group, the Club could offer oil pollution insurance, a timely change. Just one month later, in March 1989, the

Exxon Valdez ran aground in Alaska's Prince William Sound, spewing forth 11 million gallons of crude oil in one of the greatest environmental disasters in American history. The Club did not insure the *Exxon Valdez*. Nonetheless, the accident highlighted the potentially enormous costs of spills and made clear that American-flag companies would be wise to obtain oil pollution insurance if they did not already have it. At about the same time, the Standard Club in London purged most of its American "brown water" tonnage, John Sandercock says.

These three events—the American Club's new ability to offer oil pollution coverage, the *Exxon Valdez* spill and the demand it created for this coverage, and the Standard Club purge—combined to create opportunities for the Club. In particular, the Club became a major provider of P&I insurance, including oil pollution cover, to tugboat and barge companies in the United States. The Club had experienced a burst of tug and barge tonnage in the 1970s; by 1977, tugs and barges represented nearly one-fifth of the tonnage entered in the Club. It experienced a second burst from the mid-1980s through the mid-1990s; by 1995, they represented nearly half the Club's tonnage.

Some of the best-known companies in the US tug and barge industry joined the Club, including Hollywood Marine in 1986, Moran Towing in 1989 and Reinauer Transportation in 1991. Looking back to the 1990s, Paul Sa says, "It was a different Club then. We had more brown-water tug and barge tonnage than we had deep water. And the Club was still mostly American flag." Although tugs and barges remain important to the Club today, they accounted for less than five percent of its entered tonnage in 2016 compared with their peak of nearly 50 percent in 1995.

ABOVE: Sir Peter Miller, former chairman of Lloyd's, spoke at an American Club dinner in New York in 1990. He was one of many prominent financial and business executives who addressed Club meetings in the 1980s and 1990s.

ABOVE LEFT: Reinauer Transportation Companies joined the Club in 1991, part of an infusion of tug and barge tonnage in the late 1980s and early 1990s. Pictured is the tug *Austin Reinauer* pushing the Reinauer barge *RTC 100.*

Favorable Claims Experience

In another key change, the Club's affiliation with the International Group gave it a new role—reinsurer as well as reinsured, with some unexpected consequences. The Club became a reinsurer through the group pool, in which the participants share each other's claims costs. The pool was one of three layers of reinsurance in the Club's deal with the London Club:

- The London Club reinsured the American Club for each occurrence in an amount between $1 million and $2.2 million;
- The pool kicked in for amounts between $2.2 million and $12 million; and
- The group reinsurance policy at Lloyd's covered all claims above $12 million per occurrence.

The pool operates very simply. No premiums change hands. Instead, each claim submitted to the pool is divided among the members according to an agreed formula. The American Club's share of payments was initially pegged at 1.00 percent.

Several clubs in the group had initially opposed the Club's membership, fearing it would raise everybody's costs by flooding the pool with claims. In fact, the opposite happened: the Club became a surprisingly strong positive contributor.

The Club made its first payment into the pool in September 1989 when it anted up $74,948 for its share of a claim submitted by the Standard Club. All told, in its first three years as a reinsured member, the American Club paid $4.8 million into the pool for its share of 216 claims submitted by other clubs. On the other hand, the Club did not have a single claim of its own large enough for reimbursement by the pool during that period.

The Club's board minutes noted the disparity between the millions paid in and zero taken out. However, the directors weren't throwing up their hands in anguish. Organizations and individuals buy insurance in hopes they won't need to use it. Homeowners don't wish for their homes to burn

The Club began pressing for full membership in the International Group even before the ink was dry on its 1989 agreement to become a reinsured member.

down simply because they have insurance. Similarly, shipowners emphasize safe operations and seek to avoid accidents even though they have P&I cover. Since the Club wanted to protect itself by having reinsurance regardless of whether it filed any claims, the minutes made clear that "the pool is an extremely advantageous arrangement because the cost of similar reinsurance protection from market reinsurers today would be prohibitive."

In 1992, based on its favorable claims record, the Club's share for payment of claims in the pool was reduced to 0.69 percent.

Seeking Full Membership in the International Group

The Club began pressing for full membership in the group even before the ink was dry on its deal to become a reinsured member. Full membership required a unanimous vote by the group's existing members. The Club's application was considered for the first time in February 1989. "Unfortunately, several clubs voted against us, citing as a reason the fact that all previous reinsured clubs had waited several years before becoming members," according to the American Club board minutes. "The matter will come up again at the 1990 meeting of the International Group."

As expected, the Club reapplied in 1990—and was turned down again. It tried anew in 1993 with the same result.

Undeterred, the Club's directors passed a resolution in June 1994 reaffirming their desire—indeed, their demand—that the Club become a full member. The resolution stated, "The Board notes that, to the best of its understanding, the American Club meets all the requirements for such membership and knows of no reason why it should not be entitled to assume the status of full pooling membership, to be effective February 20, 1995." But the result was no different than before.

The International Group now offered specific reasons why the Club didn't qualify. It said only 70 of the 1,100 vessels entered in the Club were oceangoing and this fell short of the group's rule that applicants must have "a reasonable range of international ocean tonnage." It also expressed concern about the $66.16 million judgment for asbestos-related claims that had been levied against the Club in the Prudential Lines bankruptcy case. The judgment had not yet been overturned by the federal district court.

Complicating matters, the Club's entered tonnage was shrinking again, continuing the grow-contract-grow-contract pattern that had bedeviled it since the 1950s. The problem this time was a sudden drop in the Club's tug and barge tonnage due to consolidation in the industry and environmental costs associated with the Oil Pollution Act of 1990. OPA 90 imposed strict new responsibilities on the owners of tankers and barges transporting oil in US waters. The new law was as controversial as it was tough. A spokesman for the International Association of Independent Tanker Owners, based in Oslo, predicted that tanker operators would no longer be willing to transport crude oil to the United States because of the law. The US, he warned, faced oil-supply disruptions. "One might say that the US might be the first nation in history that has tried to blockade itself," he claimed with a touch of humor.

Despite this claim, tankers kept operating and oil kept flowing. However, OPA 90 did have a dramatic impact on oil spill cleanup costs and on premium rates for oil pollution insurance. By one estimate, cleanup costs for spills in the United States were four

ABOVE: Moran Towing was a member of the Club from 1989 until its acquisition by an investor group in 1995.

ABOVE CENTER: Double hulls became mandatory for newly built oil tankers under the US Oil Pollution Act of 1990, which was passed in response to the *Exxon Valdez* incident. Two years later, the International Convention for the Prevention of Pollution from Ships was amended to require double hulls for the tankers of all ratifying nations.

ABOVE LEFT: The double-hull Norwegian tanker *SKS Satilla* collided with a submerged oil rig in the Gulf of Mexico in 2009 and did not spill any oil despite extensive damage to her outer hull.

times greater than anywhere else in the world following the passage of OPA 90.

The International Group responded to OPA 90 by imposing an insurance surcharge on tankers and barges carrying oil in US waters. The American Club, in turn, passed along the surcharge to its affected members—but at a price to the Club. Several barge companies withdrew rather than pay the premium. Hollywood Marine left the Club in 1994 to insure at Lloyd's, which wasn't demanding as large a premium on barge tonnage as the group was demanding. Barge Transport Company left the Club the following year, saying it was insuring in the commercial market "for significantly lower limits."

Moran Towing left in 1995 for a different reason: the sale of the company by Thomas Moran, its chairman and principal owner, to outside investors. The company was founded in 1860 by Michael Moran, an Irish immigrant, who established the tradition of naming its tugboats for family members, especially for the women in the family: the *Alexandra Moran, Alice Moran, Amy Moran* and so on. By 1900 it was one of the largest tug operators on the Atlantic Coast. Thomas Moran, a great grandson of the founder, took over as president in 1964. When the company joined the American Club in 1989, he was elected to the Club's board and became one of the Club's enthusiastic supporters. But he retired in 1994, sold the company and resigned from the board. The new owners then withdrew the company from the American Club and entered it in Skuld.

The withdrawal of Moran marked a disappointing end to the burst of tonnage that had helped the Club grow in the early 1990s. After Moran left in 1995, the Club's tug and barge tonnage was down nearly 50 percent from its 1993 peak, and overall tonnage was down to 3.8 million from 5.1 million.

Charting a New Course: Vision 2000

Darby Duryea, a veteran employee of Johnson & Higgins, stepped into the middle of this jumbled situation. In 1993, he became head of the J&H marine insurance department and, in that capacity, was responsible for supervising Shipowners Claims Bureau and its management of the Club.

"Almost immediately, I got an earful from everybody," he says. The directors of the Club were unhappy with the Club's lack of growth and its inability to join the group as a full member. And the directors of Johnson & Higgins were sick of hearing about the struggles of Shipowners and the Club.

Duryea says the Club needed to grow and diversify its tonnage by type and flag if it expected to survive. It needed to avoid situations where it drew half its tonnage from a relatively narrow sector like US-flag tug and barge. The Club had chosen tug and barge as a focus because that's what was available to it at the time. Nonetheless, diversification of risk is a basic principle of insurance.

Key to the club's future, Duryea believed, was getting more international tonnage and joining the group as a full member. However, the Club faced a difficult situation. On the one hand, many foreign-flag owners would not consider joining the American Club unless it was a full member of the group. On the other, the group wouldn't admit the Club to full membership unless it had more foreign-flag tonnage. There was no easy answer to this which-comes-first dilemma.

Recognizing that they had to do *something* to reignite the Club, in early 1994 the Club's directors and managers retained Mercer Management Consulting to develop a strategic plan. The plan, known as Vision 2000, was approved by the directors in November 1994 and established a goal of 10 million entered tons by 2000. However, the plan was more than just a growth document. Tom McGowan says Vision 2000 was "a roadmap to where we wanted to go." It reflected the hope of the directors and managers to turn the American Club into a truly international P&I club.

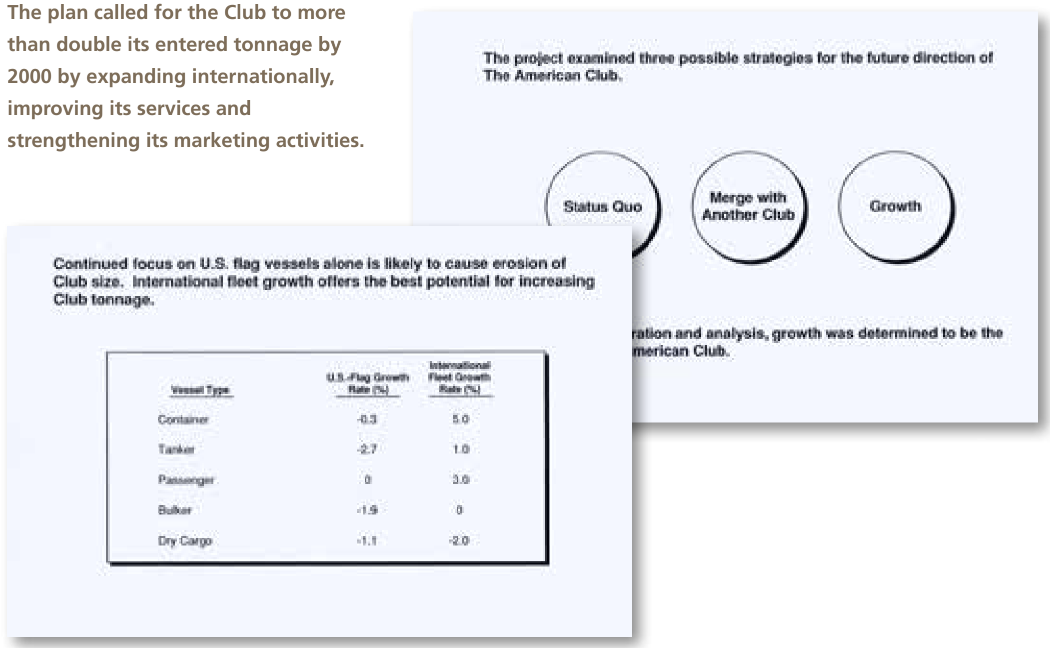
ABOVE: The Club expanded its communication with members and prospective members by publishing its first full-scale annual report in 1994.

BELOW: In 1994, the Club retained Mercer Management Consulting to develop a strategic growth plan. The plan called for the Club to more than double its entered tonnage by 2000 by expanding internationally, improving its services and strengthening its marketing activities.

The plan called for the Club to grow worldwide by: establishing an office in London; conforming its practices to those of other P&I clubs (such as by establishing a "release call," which the American Club didn't have but most other clubs did); enhancing its member services; and strengthening its marketing in the United States.

The plan also called for Shipowners to recruit a new CEO with international experience. Jack Cassedy had retired as chairman and CEO of Shipowners in 1993. McGowan continued as president of Shipowners and secretary of the Club. Duryea took on the task of finding a new CEO. "There was really no pool of people for this type of job in the United States," he says. The P&I business was centered primarily in Europe.

So Duryea looked across the Atlantic and identified Joseph E. M. Hughes, chairman of the global marine practice at Jardine Insurance Brokers International, as the leading candidate. Hughes—an



LLOYD'S LIST
INSURANCE DAY

Reprinted from Wednesday July 26 1995 issue

American Club plans to seek an international membership are examined by Jim Mulrenan

Adopting a vision of expansion

AN AMBITIOUS strategy to build the American Steamship Owners Mutual Protection and Indemnity Association into a significantly larger club takes a major step forward next week.

Plans to develop the New York based mutual into a fully international club will get under way as Joe Hughes takes over as chairman of Shipowners Claims Bureau.

The grand strategy, Vision 2000, that should see the American Club at least double in size by the turn of the millennium has recently been adopted.

Recruitment of Mr Hughes, the chairman of Jardine Insurance Brokers marine division and the former London underwriter of the Norwegian Club Assuranceforeningen Gard, is a strong signal of the American Club's intent.

The American Club languished as a modestly sized mutual for many years, held back by the decline of the US flag, the fact that it could offer

Joe Hughes: new chairman

took over as chairman of the American Club 14 months ago and is a key figure behind the current strategy.

What will be unchanged, according to Mr Kurz, is the low profile style of the American Club or an emphasis on solid, efficient and cost-effective claims handling.

"We won't go in for marketing, advertising, fancy brochures or videos," he explains.

Many P&I clubs had their origins as national or regional

it out of existence.

There are not too many preconceptions of where the new members will come from, apart from the fact that owners in US trade have the most straightforward reason for joining.

Mr Kurz sees the Pacific as providing a natural constituency for the American Club and he also hopes to emphasise the quality of service the mutual can provide for vessels trading to the United States.

He is keeping details of the document rather close to his chest, but explains that Vision 2000 is currently only a skeleton that Joe Hughes is charged with bringing alive and suggests that the American Club might look rather different in as little as a year's time.

Although the American Club is one of the smallest of the International Group mutuals, its service network in the US is more than a match for its bigger rivals, according to Mr Kurz.

Other P&I clubs may have general correspondents and correspondent networks in the

Shipping, Atlantic Richfield and BP America.

It is, however, equally true that some of the best known US shipowners such as Sea-Land and Lykes favour European managed clubs.

The American Club has only a modest bulk carrier membership, but as this area is the subject of the most serious concerns about sub-standard tonnage this is something of a benefit, suggests Mr Kurz.

Nearly half the tonnage is, however, tankers and there is also a considerable tug, barge and coastal craft entry.

A lot of the wilder stories about US court decisions and jury awards are apocryphal, and if there was a major claim the pooling arrangements of the International Group means members of other clubs would share in the loss.

Nor does Mr Kurz see any greater long-tail exposure to asbestos-related crew claims than in any other P&I club that did American business.

Other clubs with a strong US following, including Gard,

Oxford graduate and attorney—had worked at two of the big European clubs, Gard and Steamship Mutual, knew the global P&I business inside out and had the contacts to recruit foreign-flag members.

"I can remember a lightbulb going off in my head thinking the right person for this job is Joe Hughes," Duryea says. "I can remember thinking, at the same time, it's too bad we don't have a prayer of getting Joe Hughes for this job. I absolutely never thought we would ever get Joe Hughes. But I absolutely thought he was the one person. I did something kind of stupid: I put all my eggs in that one basket."

Duryea and Hughes had known each other for several years, dating back to when Hughes was a director of Gard and had taken half the American President Lines fleet away from the American Club at the 1986 renewal. Duryea was the J&H broker representing American President Lines in the transaction.

Duryea phoned Hughes in December 1994 and asked whether he would consider moving to the United States and becoming CEO of Shipowners. As Hughes recalls the conversation, "I said, 'Darby, it has never crossed my mind.' But I also said, 'Let's keep talking.'"

A few weeks later, Hughes stopped over in New York on a flight from Brazil to London and had breakfast at the Algonquin Hotel with Duryea and three other representatives of the Club: Charles Kurz II, its chairman; Richard Brown, general counsel; and Paul Sa, a board member and future chair. Sa was impressed. He describes Hughes as smart, capable and energetic with an upbeat personality. "I told Darby, 'I don't know why this guy would bother with a small club like ours.'"

However, Hughes was intrigued. "I was anxious to get back into the P&I world," he says. "And I decided

ABOVE: *Lloyd's List* said the recruitment of Joseph E. M. Hughes in 1995 to become chairman and CEO of Shipowners Claims Bureau signaled a new phase of more aggressive growth for the American Club.

BELOW: Charles Kurz II was chairman of the Club from 1994 to 1997.

to give it a go. What did I have to lose? Most people in the market in London thought I was completely insane. But a couple of people thought this could be a great opportunity for me." He notes that he was 40 years old, young enough to find another job if the American Club bombed. He also liked the idea of working at J&H, a firm he respected. Moreover, he says J&H assured him, "If this goes belly-up, we won't cast you out."

Hughes and Shipowners reached an agreement in the spring. Recalling these events, Duryea says, "It was a happy day when I reported to Charlie Kurz and others at the Club, and to the management at J&H, that Joe had agreed to join us."

Hughes became chairman and CEO of Shipowners in August 1995. In a lengthy article about the transition, *Lloyd's List* wrote that the hiring of Hughes "is a strong signal of the American Club's intent." It said, "Joe Hughes is charged with bringing alive Vision 2000," the Club's strategic plan. It also suggested that the Club "might look rather different in as little as a year's time."

CHAPTER TEN

The Emergence of Today's American Club

Joe Hughes is never at a loss for words. The *Journal of Commerce* described him as a "witty Welshman" who "sprinkles his conversation with Latin idioms and quotes from Shakespeare" and enjoys telling anecdotes at shipping-industry dinners. In lightheartedly recalling what the American Club was like in 1995, he says, "The American Club was to the rest of the International Group what the Galapagos Islands are to the rest of evolution. Its distance from the mainstream created all kinds of practices and forms that were out of kilter with what other clubs were doing."

One of his first priorities on becoming CEO of Shipowners Claims Bureau was to modernize the Club's procedures and conform them to industry standards. Doing so, he believed, would help the Club recruit non-US members.

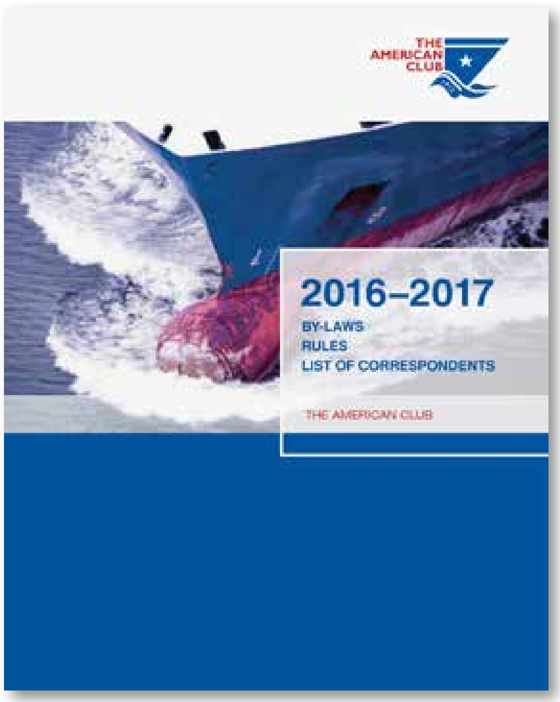
PRECEDING PAGES: The Club's boardroom at its New York office is the setting for a meeting of directors and managers. The boardroom enjoys spectacular views over New York Harbor and Lower Manhattan.

ABOVE: Joseph E. M. Hughes became chairman and CEO of Shipowners Claims Bureau in 1995 and secretary of the American Club five years later. He continues to lead the Club today.

RIGHT: In the 1990s, the American Club switched from issuing insurance policies to having a rule book that spells out the terms of its coverage. The change helped bring the Club into the mainstream of the P&I market by conforming its practices to those of other clubs.

"For example, we had a policy format for the evidencing of cover," he says. "All the other clubs had certificates of entry and rule books." He says there was nothing inherently wrong with issuing an insurance policy rather than publishing a rule book. "But if you're going out into the world, and an owner in Piraeus or Singapore or Hong Kong or Rio asks, 'Can I see a copy of your rule book,' because all the other clubs have rule books, and you say, 'Well, we don't have one, here's our policy'—it's not the same."

"We didn't levy release calls either," he says. (A release call is paid by a departing member of a P&I club to cover its liabilities for any future supplementary calls on insurance years that are still open.) "Historically, we had a tradition of keeping our insurance years open for long periods of time. We needed to do what the other clubs did: close our years earlier with a release call mechanism to enable a member to leave before a year had been closed without harming the financial interests of the remaining members."



"My overarching aim was to conform our procedures to those of the International Group clubs," he says. Those procedures were familiar to shipowners of all nations.

The Club also expanded its product offerings. "We were just offering plain P&I insurance, no FD&D [freight, demurrage and defense] cover," he states. "It's vital to offer FD&D cover, but we had to rely upon the London Club to do it for us." The Club added FD&D in 1996. In addition, it created a separate facility to provide insurance to charterers. Charterers' risk coverage is typically sold on a fixed-premium rather than mutual basis and is an important product for any club.

At the same time, the Club began seeking new members from around the globe. "We did that energetically right from the get go—grow and diversify," Hughes says. "I traveled hugely—a lot to the Far East as well as to London and other places. We developed a footprint in Asia, in Korea, for example, and concentrated on Greece as well."

However, the Club did not achieve straight-line growth. There were setbacks along the way. McGowan says he thought Hughes might quit after the Club was rejected for full International Group membership in October 1996 and Keystone Shipping, Foss Maritime and several other members left four months later at the February 1997 renewal, causing a temporary drop in entered tonnage. "That was a low point, it really was," Hughes acknowledges. But he stayed and kept working to build the Club.

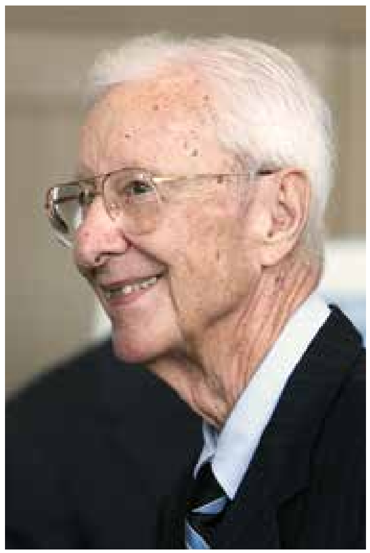
The loss of Keystone without warning was especially painful. The company had been a bedrock of the Club since the 1930s, and Charles Kurz II, vice president of Keystone, was the Club's chairman. Paul Sa says the Club was in "a precarious position" following Keystone's departure. "At that time," he says, "we did the calculation that if another member left we would have to go to the members for more money."

Kurz resigned as a director and chairman of the Club and was replaced on an interim basis by the deputy chair, Richard Gronda, president of Farrell Lines. Sa was elected chairman at the annual members' meeting four months later in June 1997.

Becoming a Full Pooling Member

Gaining full membership in the International Group was paramount for Hughes. The Club could lower its reinsurance costs by becoming a full member. But more than money was at stake. Attaining full membership was also a matter of image and prestige—"just to be seen as a first-class citizen sitting at the high table of global P&I like everybody else," he explains. "It was vitally important to fulfill the commercial ambitions of the American Club to have that status in the eyes of the shipping world as being a full pooling member of the group."

The Club applied for full membership in March 1993. After reviewing the application, the group wanted more information. So in June 1994 it appointed Coopers & Lybrand, a London-based audit and consulting firm, to examine the Club's books and determine whether the Club met the



group's financial requirements and other membership standards.

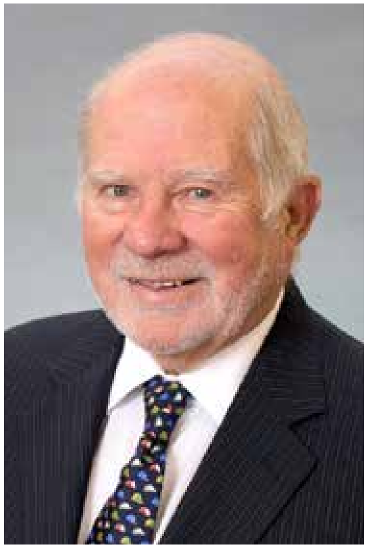
The process went on forever—at least that's how the directors of the Club seemed to feel as they passed resolution after resolution calling on the group to get moving and complete the study and admit the Club. In reality, the Club lacked the financial sophistication and accounting systems to answer some of the more esoteric questions the consultant asked, and this contributed to the delays.

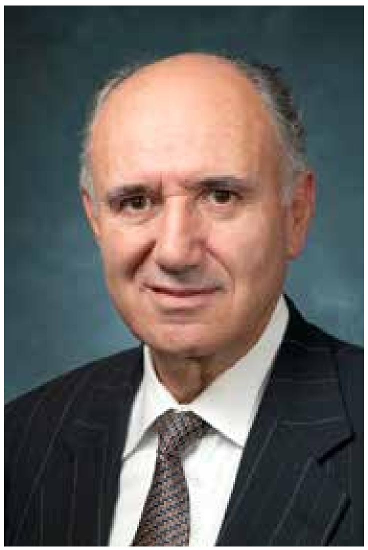
The study was still in progress in August 1995 when Hughes became CEO of Shipowners Claims Bureau. He pushed ahead immediately to supply whatever remaining information the consultant needed and to encourage the International Group to act posthaste on the application. "We worked very hard on the International Group application," he says.

Coopers & Lybrand finally completed its study in the fall of 1996. Its report indicated there were no grounds to deny the Club full pooling status. The report did not state whether the Club should actually be admitted, since such a recommendation did not fall within the purview of the firm's assignment. Nonetheless, the report seemed to open

ABOVE LEFT: Richard Gronda, president of Farrell Lines, served as interim chairman of the American Club in 1997.

BELOW LEFT: Robert "Bobby" Guthans, cofounder and president of Midstream Fuel Service, Inc., of Mobile, Alabama, was a director of the Club from 1997 to 2008. His many professional distinctions included chairmanship of the American Waterways Operators. He was an energetic supporter of the Club's Vision 2000 initiative and an influential voice in achieving the independence of Shipowners Claims Bureau from Marsh & McLennan in 2002.





the way for full membership. Then came a surprise. John Riley, chairman of the International Group, phoned Hughes to tell him that the membership subcommittee of the group had recommended that the Club's application be rejected. As Hughes recalls the conversation, Riley told him the subcommittee would reconsider the decision in two or three years if the Club showed a sustained record of satisfactory performance. Hughes was extremely disappointed, insisting that the Club either qualified or it didn't and, since it did qualify, shouldn't have to wait. However, he says he responded to Riley "more in sadness than in anger."

These events occurred at the end of 1996 and were followed by the difficult 1997 renewal. Hughes was more determined than ever to gain full membership. Following the rejection by the group, the Club developed its own report suggesting the financial, business and legal reasons why it should be admitted immediately. Hughes and McGowan presented this document to Riley and other group managers at a breakfast meeting in Oslo on July 4, 1997. The managers had convened for their usual summer meeting and had chosen Norway as the site to celebrate the Skuld club's centennial.

With the Club's report in hand, the subcommittee took a fresh look and this time recommended approval. However, the final decision rested with the 13 full pooling members of the group. A unanimous vote by all 13 was required to admit the Club. The subject was added to the agenda of the next regularly scheduled membership meeting at Watermen's Hall in London in November 1997. Riley had by now retired as chairman of the group and had been succeeded by George Greenwood of Steamship Mutual, who presided at the London meeting.

ABOVE LEFT AND BELOW LEFT: Since 2007, the American Club's board of directors has been led by J. Arnold Witte, CEO of Donjon Marine Co., the Club's chairman, and Markos Marinakis, president of Marinakis Chartering Inc., deputy chairman.

Hughes attended the meeting, but he and James Dowson of Shipowners' P&I Club—which, like the American Club, was a reinsured member—were asked to leave the room while the American Club's application was discussed. "We were sent to the anteroom while they deliberated the issue," Hughes says. "I remember it vividly, making all the nervous jokes that one makes in those situations. Because it was genuinely a matter of some uncertainty." Then Lloyd Watkins, secretary of the group, stuck his head around the door and invited Hughes and Dowson back into the room, whereupon Hughes was informed that the American Club had been admitted to full membership. There were no trumpet fanfares or Champagne toasts. "It was very brief and businesslike," Hughes says. "Very cut and dried, and on to the next item on the agenda."

Notwithstanding the matter-of-fact tone of the meeting, Riley understood that being admitted to full membership in the group meant a great deal to Hughes. A few weeks later, he sent Hughes a Christmas card with the handwritten message, "Many congratulations, Joe, on becoming a member of the most exclusive club in the world."

The American Club became a full pooling member on February 20, 1998. Recalling these events, Hughes says, "We had done it, thank goodness. Because if we hadn't, things would have been very difficult for us."

ABOVE LEFT: Eurotankers Inc., which operates tanker and bulk carrier vessels, is one of the Club's Greek members. Pictured is the *Genie*, named for the owner's wife.

ABOVE RIGHT: The ocean-going, anchor-handling tug *Atlantic Salvor* stands by as the aircraft carrier *John F. Kennedy* is docked in Philadelphia. An anchor-handling tug is capable of tugging or towing a large ship or oil rig. The *Atlantic Salvor* is owned by American Club member Donjon Marine Co.

Rapid Transition

Full group membership was, for the Club, like retrofitting a ship with a powerful new propulsion system. Entered tonnage was 4.9 million in January 1998. One month later, after its first renewal as a full member, tonnage accelerated to 6.0 million—and continued to rev up, reaching 19.1 million in 2003.

Equally important, the Club's membership profile changed as non-US shipowners began to join. Ownership of the world's merchant fleets was shifting steadily eastward, as it had been for decades, away from the US and UK, toward the eastern Mediterranean and Asia. Fortified by its full membership in the group, the Club now positioned itself for this global trend by adding new members, new offices and new people with international experience.

The Club underwent an amazing transformation. In 1995, its membership by domicile was 95 percent US and 5 percent non-US, based on entered tonnage. By 2002, membership was 50 percent European and 11 percent Asian. Newly enlisted members included Polembros Shipping Limited of Greece and Eddie Steamship Company of Taiwan, among many others. The transformation continued: by 2006, membership was 63 percent European and 17 percent Asian. Although members in the United States continued to be very important to the Club, as they are today, they were no longer the dominant segment; they represented just 14 percent of entered tonnage in 2006.

For years, the Club had been an American Club serving the American steamship industry. It was now an American Club serving the world.

The Club also gained some new members in the United States, such as Donjon Marine in 2004. "I was convinced that under new leadership, the American Club had evolved from a fringe player in




ABOVE LEFT TO RIGHT: Vincent Solarino is president and chief operating office of Shipowners Claims Bureau, the Club's manager. Ian Farr led the Club's London office from its opening in 1988 until he retired in 2013. Stuart Todd was the Club's chief underwriter from 2001 to 2014. Dorothea Ioannou is the Club's global business development director and managing director of its Piraeus office.

the protection and indemnity market to a full and valued participant in the International Group of P&I Clubs," J. Arnold Witte, Donjon's CEO, says. Witte was elected to the Club's board and became its chairman in 2007. Markos Marinakis of Marinakis Chartering Inc. became deputy chair at that time. They continue in those positions at this writing, having led the Club for the past decade.

Establishing a Global Presence

The Club adopted a more international posture in many ways. The directors started meeting once a year outside the United States, beginning with a November 1999 board meeting in London and a November 2000 meeting in Hamburg.

The Club began holding receptions for shipowners and brokers in leading maritime centers. A reception at the Athens Golf Club in June 2000 drew 300 people. "The event has been much talked about subsequently in Piraeus and would appear to have put the Club in good standing for the next renewal," the board minutes asserted.

In 1998, the Club opened an office in London, a global center of marine insurance brokerage. Hughes recruited Ian Farr, a former colleague at Jardine's, to head the new office. Farr was an experienced broker who specialized in placing P&I insurance for Asian shipowners. "A lot of business gets transacted in London, so the Club really needed to gain a foothold here," Farr says. "That was our initial focus—basically just get onto brokers' agendas: if they had a new risk, think of the American Club." Farr led the London office for 15 years until he retired in 2013.

Other offices followed: Piraeus in 2005, Shanghai in 2007 and Hong Kong in 2013. Expanding in the US, the Club opened an office in Houston in July 2016. Each office serves existing members and

generally provides liaison with local markets. With six offices around the world, "the Club has grown into a full-blown global service provider," Dorothea Ioannou, managing director of the Pireaus office and global business development director of the Club, remarks.

The Club further bolstered its international presence in 2001 by hiring Stuart Todd as its chief underwriter. "Top protection and indemnity underwriter Stuart Todd is set to join the fast growing American Club," *TradeWinds* reported. "Recruitment of Todd, one of the best known players in the P&I market, with strong connection to Greek and other Mediterranean shipowners, is regarded as a major coup by the relatively small American Club."

Todd had spent 30 years at the UK Club before leaving in 1998 to build a P&I book at Lloyd's. Three years later he accepted Hughes' offer and moved to New York to join Shipowners Claims Bureau and the American Club. "Stuart brought us a lot of business through his market connections, especially in Greece," Hughes says. "We were already enjoying some success, but not on the scale Stuart gave us."

Todd says that, in selling prospective members on the merits of the Club, "we had to convince them there were solid foundations here, which obviously there were." He also emphasized that the American Club, as one of the smaller P&I clubs, could offer a high level of service and individual attention. Todd continued as senior vice president of Shipowners and head of underwriting until 2014, when he retired and returned to his native England, remaining involved with the Club as a consultant to the London office.

Another priority was to upgrade the Club's headquarters office in Lower Manhattan. "We occupied the 20th floor at 5 Hanover Square, which had become rather shabby over the years," Hughes

ABOVE: The Club's New York office is located at One Battery Park Plaza (the black building in the center of the photograph, immediately left of the skyscraper with the curved glass façade), overlooking Battery Park and New York Harbor.

ABOVE LEFT: George Tsimis joined Shipowners Claims Bureau in New York in 2002 and opened its Piraeus office in 2005. He returned to New York in 2007 and is now senior vice president, claims director and general counsel of Shipowners.

says. "The premises did not present a particularly modern or dynamic image for the American Club, especially to visitors." In 2000, Shipowners and the Club moved to modern offices at 60 Broad Street and then in 2006 to One Battery Park Plaza, with spectacular views of New York Harbor.

Major Changes at Shipowners Claims Bureau

Along the way, the ownership of Shipowners Claims Bureau changed twice. In 1997, Johnson & Higgins was acquired by insurance broker Marsh & McLennan. As a result, Shipowners was now a subsidiary of Marsh, a large, publicly traded enterprise. Shipowners and the Club were "a small and distant province of the Marsh empire," Hughes remarks. Perhaps for that reason, the new parent paid little attention to Shipowners and did not get involved in its management except to emphasize the need to hold down costs and generate satisfactory profits.

Edward Flynn, a vice president and underwriter at Shipowners, says, "I think Marsh had very little awareness of Shipowners. It didn't really seem to fit with their goals as a company." Flynn recalls running into a friend who asked, "Does your company even know where you work?" The friend had tried to contact Flynn by phoning Marsh. The switchboard operator had told the friend that, indeed, there was an Edward Flynn on the list of Marsh employees, but she didn't know who he was and didn't have a phone number for him.

Five years later, Shipowners was acquired by its senior management team—Hughes, Vincent Solarino (president and COO) and Farr. They bought Shipowners in January 2002 through a newly formed holding company, Eagle Ocean Management LLC. Paul Sa, then chairman of the Club, said Marsh decided to sell Shipowners because of concerns about a potential conflict between Shipowners' obligations to the Club and to Marsh. He said the transaction was friendly and ensured the complete independence of Shipowners in serving the Club's interests. The Club's annual report noted, in addition, that the purchase gave Shipowners greater leeway to invest in its business without having to seek permission from a corporate parent.

The need to invest was increasingly apparent. Many other P&I clubs and their managers were diversifying their products and services as the P&I market entered a period of change. In 2000, Tindall Riley, manager of the Britannia Club, began offering hull and machinery insurance, backed by German financial services giant Allianz. That same year, British Marine, one of the oldest P&I clubs, demutualized with financial backing from equity investor Capital Z Partners and began offering both P&I and hull coverage on a fixed-premium basis. Other clubs and managers addressed market changes in their own particular ways, such as by adding new services through joint ventures or through alliances with public companies.

ABOVE: The American Club became a full pooling member of the International Group in 1998. Pictured is the International Group logo.

BELOW: Eddie Steamship Company, based in Taiwan, is a longstanding member of the American Club. Pictured is its supramax bulker *MV Heroic.*

Hughes and his two partners took a series of steps to keep pace with the evolving market:

- Their holding company, Eagle Ocean Management LLC, formed a subsidiary, Eagle Ocean Services, to develop new capabilities.
- Eagle Ocean Services, in turn, created Atlantic Marine Associates to consolidate the average adjusting, claims correspondence, survey and consultancy work previously done by Shipowners.
- Eagle Ocean Services also launched Eagle Ocean Agencies and Eagle Ocean Marine to offer P&I and FD&D cover for smaller ships outside the United States on a fixed-premium basis. "There has always been a fixed-premium market for smaller ships," Stuart Todd says. "We saw an opportunity there." Coverage is insured by the American Club and reinsured by Lloyd's of London.
- In January 2013, Eagle Ocean Agencies formed Eagle Ocean America, a fixed-premium facility offering P&I, hull and related coverages for tugs, barges and other vessels operating in US coastal and inland waters. The new unit competes with commercial insurers and writes on behalf of a Lloyd's syndicate managed by StarStone Insurance of London.

Summing up these various initiatives, Hughes says, "We have broadened the platform of insurance and service capabilities offered by, and in conjunction with, the American Club. In doing so, we have increased the Club's footprint in the market in general and have created very cordial and cooperative relationships with other insurers, those at Lloyd's of London in particular."

EAGLE OCEAN MARINE

American Hellenic Hull Insurance Company

TOP: Eagle Ocean Marine provides fixed-premium P&I and freight, demurrage and defense insurance to operators of smaller vessels. Coverage is insured by the American Club and reinsured by Lloyd's of London.

ABOVE: In 2016, the Club entered the global hull and machinery market by investing in a new insurer, American Hellenic Hull Insurance Company, based in Cyprus.

In 2016, the Club took another major step when it entered the global hull and machinery market by investing in a new insurer, American Hellenic Hull Insurance Company, based in Cyprus. The unit provides hull and related covers and "strengthens the Club's ability to serve its members and compete effectively within a diversifying P&I industry," Solarino says. He says the creation of American Hellenic reflects the Club's ongoing plan to "multiply its market presence, expand its product lines and increase its tonnage across all lines."

Building the Club's Financial Resources

Vince Solarino was another of Joe Hughes' key hires. Solarino had originally joined Shipowners as controller in 1984 but had left in 1990 to become a consultant. In January 1995, McGowan retained him to resolve some financial and computer problems at the Club. He says he enjoyed being a consultant and had no thought of returning to Shipowners as an employee.

But Hughes became CEO of Shipowners a few months later and was impressed by Solarino and the quality of the consulting work he was doing for the Club. In 1996, he recruited Solarino to become Shipowners' chief financial officer. Solarino says he decided to give up consulting and accept Hughes' offer because he was excited about the Club's future. "There was a mission to become a more substantial club, and the tools and board commitment seemed to be in place to do that," he says.

Solarino brought a level of financial sophistication to the Club it had not had before—something that was especially helpful as the Club moved forward with its application to become a full member

"We had to abolish the old philosophy of only keeping enough statutory surplus to satisfy the State of New York," Vincent Solarino says. By 2004, the Club's statutory surplus was five times greater than the amount required by state regulators. By 2014, it was nine times greater.

of the International Group. When McGowan retired in 2000, Solarino succeeded him as president of Shipowners. Hughes continued as Shipowners' chairman and CEO and succeeded McGowan as secretary of the Club.

One of Solarino's main goals was to strengthen the Club's balance sheet. "It was necessary for us to start building surplus," he says. The balance sheets of most European clubs included substantial free reserves—money not earmarked for any known liability. Free reserves are like a safety net, reducing the need for a club to make supplementary calls on its members if claims costs surge unexpectedly.

However, the philosophy of the American Club in managing its balance sheet had been quite different. For years, the directors had run the American Club on a kind of pay-as-you-go basis: they resisted increasing the Club's surplus above the minimum level required by the New York State Department of Insurance and assessed members as little as possible—just enough to pay claims and keep the Club in business. When surplus exceeded the state-mandated level, they often distributed the excess to members. When surplus dipped below the minimum, they replenished it by raising funds from the members through supplementary calls. Free reserves were minimal.

This strategy left little room for error, as was made clear in 1970 when the Club's statutory surplus fell to negative $4.8 million due to "large claims, large court awards, large settlements and late claims filed," according to a memo to the board. The state insurance department expressed "shock" when it learned of the negative surplus and demanded that the Club act immediately to restore surplus to the required minimum, which was then $4 million. The Club had to impose unbudgeted assessments of nearly $9 million, a bitter pill for the members to swallow.

The Club's approach may have made sense in an era when the Club was dominated by a small group of American-flag companies which were willing to live with the consequences of their own decisions. But Hughes and Solarino believed this was no way to run a club serving a diverse membership of companies worldwide. "We were out of step with the rest of the industry," Solarino says. To compete effectively and reduce the Club's susceptibility to supplementary calls, "we had to abolish the old philosophy of only keeping enough statutory surplus to satisfy the State of New York."

As the membership grew and changed, new directors elected in the late 1990s and early 2000s supported the idea of strengthening the Club's balance sheet. The Club has made meaningful progress since then. By 2004, statutory surplus was five times greater than the amount required by state regulators. By 2014, it was nine times greater. Other measures of financial soundness have shown similar improvement. Importantly, statutory free reserves stood at nearly $6.00 per ton at the beginning of 2016 and now compare favorably with those of other group clubs.

Creating an Investment Process

As if modernizing the Club's procedures, joining the group, expanding internationally, opening overseas offices, hiring new people, introducing new classes of insurance, developing new services and bolstering the Club's balance sheet weren't enough, Hughes and his team also took on the task of developing a more structured process for managing the Club's investment portfolio. This effort became increasingly important as the Club's surplus and reserves grew and there was more money to invest.

The Club has a long and sometimes colorful history of investing. This history is interesting in its own right and highlights some of the ways in which institutional investing in the United States has changed over the past century.

From the Club's founding in 1917 through the 1950s, the investment portfolio was managed hands-on by the finance committee of the board. Investment choices were based on the ideas and preferences of committee members, subject to approval of each individual security purchase or sale by a vote of the full board, an awkward procedure. Sometimes members of the committee would bring employees of their companies to committee meetings to offer investment ideas—as in 1938 when Robert Hand, the Club's chairman, who was an executive of Standard Oil Company of New Jersey, brought along Jersey Standard's assistant deputy treasurer to recommend several high-grade railroad bonds for purchase. Institutional investing was not yet the disciplined field it is today, and many institutions were guided by rudimentary procedures like those of the American Club.

Many financial institutions, including the Club, invested exclusively in fixed income securities years ago. But in 1930, as the stock market plunged in the initial months of the Great Depression, the finance committee of the Club made the fateful decision to invest some of the Club's portfolio in equities. The stock market (as measured by the Dow Jones Industrial Average) had dropped nearly 50 percent in the two months from September to November 1929, then rallied and by April 1930 had recovered half its loss. What was an investor to make of this tumultuous situation? It is easy to judge in hindsight that 1930 was a terrible time to buy stocks. However, the members of the committee believed the selloff was over and the opportunity was ripe to purchase stocks at bargain prices. The Club was not alone in this belief. *Bankers Magazine* said in April 1930 that many "smart institutional and individual investors" were buying stocks—and these investors, it allowed, "usually are right."

Over the next several months the Club invested nearly one-eighth of its assets in blue-chip issues such as American Telephone & Telegraph, Borden and Union Carbide. Unfortunately, the Club and the "smart" investors cited by the magazine were wrong. The market resumed its decline in April 1930 and fell without letup for the next two years, tumbling nearly 90 percent from its 1929 peak before finally hitting bottom in July 1932.

BELOW: **The Club invested a portion of its portfolio in blue-chip stocks, including American Telephone & Telegraph Company, during the Great Depression.**

The Club has a long and sometimes colorful history of investing. This history is interesting in its own right and highlights some of the ways in which institutional investing in the US has changed over the past century.

Corporate bonds also performed poorly. US government securities were the only refuge from the investment storm. "It didn't matter who was investing in the Thirties," Solarino points out. "Nearly everybody lost money."

These were grim times not only for the Club and its members, but for hundreds of millions of people worldwide as asset values collapsed and unemployment soared. Yet, unlike many other corporations and financial institutions, the Club—supported by the many members who stuck with it through the Depression—had the underlying strength to survive.

The Club unloaded its stocks one by one as the market bounced back. Whenever a stock recovered to the Club's purchase price, the finance committee—supported by the full board—immediately sold. But many holdings never recovered and ended up being sold at large losses. The process was slow. Not until 1942 did the Club sell its last holding—Socony-Vacuum Oil Company at an average of $9.75 a share, less than one-third the price the Club had paid in 1930. Burned by the experience, the finance committee shunned equities and invested exclusively in US government securities for the next decade and a half.

In 1947, the Club took its first step toward professionalizing its investment process when it retained Bankers Trust Company, one of New York City's largest commercial banks, to recommend securities for purchase (but not to manage the portfolio, which continued to be the domain of the Club's finance committee). The Club's portfolio totaled $22 million and was still invested entirely in US government debt.

But market conditions and investor preferences began to change. The 1950s saw a "seismic shift" (in the words of *Institutional Investor* magazine) toward the ownership of stocks by financial institutions as modern portfolio theory came to the fore. This theory, pioneered by economist Harry Markowitz, showed that investors could reduce their risk and improve their returns by diversifying across asset classes. Even many institutions which had previously invested exclusively in bonds now started adding equities to their portfolios. Private-sector pension plans, in particular, took off on a buying spree. In 1950, private-sector pensions were invested 18 percent in equities. By 1973, the figure was 74 percent.

In 1956, with the trend toward equities gaining momentum, Bankers Trust urged the Club to invest up to $1.5 million in stocks and made a pitch to manage the Club's portfolio. The finance committee said no. The stock market had nearly tripled during the prior seven years and, according to the board minutes, the committee members thought prices were too high and wanted to wait until they dropped before buying.

As if on cue, the market fell sharply over the next several months. Bankers Trust asked again in 1957, and this time the Club said yes, agreeing to invest 20 percent of its portfolio in stocks and municipal bonds, to be managed by Bankers. Bankers eventually managed all the Club's portfolio, and Deutsche Bank, which acquired Bankers in 1999, continues to manage a portion today.

The Club's investment performance was reasonably good from the 1950s through the 1990s, but the Club lacked a cohesive investment strategy and failed in its efforts to "time" the market. It loaded up on stocks in the mid-1960s (stocks accounted for a robust 46 percent of the Club's portfolio in 1967) just as the market was about to drop. And it got out of stocks entirely in 1981 near the bottom of the price cycle, just before share prices embarked on an historic 18-year rise—although yields on 10-year Treasuries were more than 15 percent in 1981 and yields on single-A corporates exceeded 17 percent, so it's hard to argue with the decision to rid the portfolio of stocks and capture the unbelievably high yields available on fixed income securities.

The Club had not owned stocks for 14 years when Hughes became CEO of Shipowners in 1995. At that time the portfolio was invested in corporate bonds and, to a lesser degree, in Treasuries and tax-exempt municipals. Solarino says the directors were wary of stocks because of the Club's uneven experience with them in the past.

Hughes and Solarino set out to convince the directors that stocks belonged in the Club's portfolio. Bankers Trust and Wall Street firm Weiss, Peck & Greer both made presentations to the board in 1998 explaining the long-term benefits of a diversified strategy that included equities. "They were the ones who explained that, and I think they did a great job," Solarino says. "It took some time to convince the board this was the right approach. But we did convince the board to start investing in equities."

In a further change, the Club hired Weiss, Peck & Greer in 1999 to manage a portion of the portfolio. And in 2000, it retained Berenberg Bank of Germany to manage the Club's investments in non-US equities.

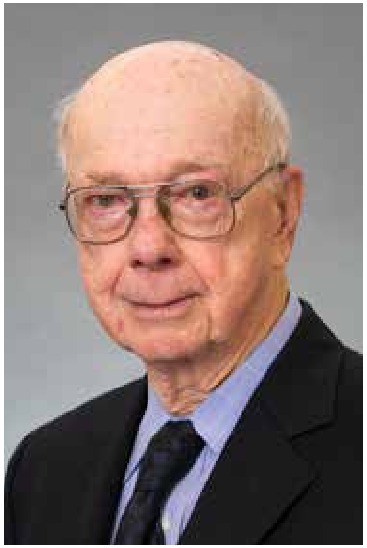
By late 2001, the portfolio totaled $65 million and was invested 25 percent in equities and 75 percent in fixed income securities. The directors and the finance committee were still active in the investment process: they retained overall policy supervision in allocating the portfolio among asset classes.

In 2006, as the portfolio grew to more than $200 million, the board and the committee decided the time had come to step aside and let professionals run the portfolio. To that end, the Club retained Merrill Lynch to advise on asset allocation and the selection of investment managers. "The board sets an investment strategy and guidelines and gives discretion to the investment manager to buy and sell and to balance the portfolio within the framework of the investment policy," Solarino explains. Broadly stated, the Club's goal is to maximize performance while preserving capital.

"What we managed to change was the thought process," Solarino says. "If you're going to be in the stock market, you can't be in it for a little while, then out of it, then back in. You can't time the market. You have to have a proper strategy and investment policy and stick with it."

He cites the example of the 2008 global liquidity crisis and resulting stock-market selloff. The Club's portfolio returned negative 8.5 percent in 2008: its stocks were down sharply but this was partly offset by solid gains on its other holdings including municipal bonds—demonstrating the benefits of investment diversification. Some institutions pulled out of the stock market in the wake of the 2008 selloff, but the Club remained invested and had a positive return of 12.4 percent on its portfolio in 2009 as share prices rallied. "If we had bailed out we would not have been able make that money back," Solarino says. "It's a consistent strategy. It has worked well for us."

"If you're going to be in the stock market, you can't be in it for a little while, then out of it, then back in. You can't time the market. You have to have a proper strategy and investment policy and stick with it."



ABOVE: Richard H. Brown, Jr., was the Club's general counsel from 1982 to 2002 and continues to serve on its board of directors.

RIGHT: This lifeboat, circa 2000, helps illustrate ongoing improvements in maritime safety. Modern lifeboats not only provide shelter from the elements but also typically have drinking water, water purifiers, lifejackets, first-aid kits, flares, fishing gear, mirrors, an emergency position-indicating radio beacon, a radar reflector or search and rescue transponder, and a sea anchor (to aid rescuers by slowing drifting from the wreck).

Resolving the Asbestos Claims Crisis

Asbestos-related claims were another major issue facing Hughes and his team. Hughes says asbestos claims were "still in the background" in 1995 when he became CEO of Shipowners Claims Bureau. "The asbestosis issue didn't loom as large as it later did," he recalls. Nonetheless, he inherited an increasingly complex situation that had evolved over an extended period.

The Club had traditionally waited about a decade to close the books on each insurance year—that is, to levy any final assessments on members, pay any final dividends to members and set aside reserves for any known claims that had not yet been paid. But the process became strained when growing numbers of asbestos-related claims from closed years began to surface in the 1980s. Dick Brown, a former general counsel to the Club, says, "When you closed a year, you were supposed to make a call that would cover all the claims in that year. But of course a lot of these years were closed before people even knew about the asbestos claims."

Because no money had been set aside in closed years for unreported asbestos claims, the Club began paying them from its general reserves. Some of these claims dated back what seemed like an eternity due to the lengthy periods from exposure to asbestos to onset of disease. In an extreme example, in 2001 the Club paid $1,296 from its general reserves for a claim that had been incurred (that is to say the exposure to the mineral had taken place) in 1942.

By 1987, as more asbestos-related claims from closed years were filed, the directors decided that, going forward, they would increase the reserves for each year as they closed it as a contingency for these claims. They were about to close the 1977 insurance year. Some directors wanted to add $250,000 to the 1977 reserves, others favored adding less; the managers argued for as much as $1 million. The directors settled on $100,000—and in the ensuing years they continued to add $100,000 to each year's reserves for unreported asbestos claims that might emerge in the future.

But $100,000 proved to be inadequate. By 2004, the Club had paid nearly $6 million for asbestos-related claims, mostly from closed years. In a letter to an insurance consultant, Hughes said such claims were accelerating and "additional large indemnity payments" beyond the $6 million were expected. The relentless growth of asbestos-related claims for which no money had been set aside threatened to eat up the Club's general reserves. Other clubs also faced a rising tide of asbestos claims, but the American Club's situation was more severe because court awards and liability settlements tend to be much larger in the United States than elsewhere.

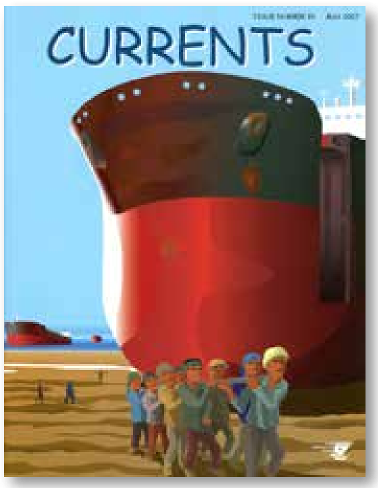
There was another important difference as well: the American Club, unlike other clubs, had experienced a near-total turnover in its membership between 1990 and 2004. Nearly all the longtime members that had dominated the Club in the 1960s, 1970s and 1980s were now former members. Asbestos claims from closed years raised a fundamental question: who should be responsible for paying them—the former members that had incurred them or the current members that had inherited them? The issue was emotional as well as legal and financial. Vince Solarino says, "It angered me that the members who had incurred these claims and had not set aside enough money to pay them were leaving and were trying to collect more than they had ever put in. It's unfair—especially if you're trying to build a club—to ask new members to pick up the tab for the legacy asbestos claims of former members."

In 2004, Solarino and Lawrence Bowles, the Club's general counsel, proposed that the Club stop paying all claims for insurance years prior to February 20, 1989. They chose 1989 as a cut-off because the Club had joined the International Group as a reinsured member that year. The group had itself wrestled with the issue of how its members should treat asbestos-related claims from closed years; it ultimately recommended that they pay them. Solarino and Bowles proposed that the Club abide by the group's recommendation for the years in which it was a member of the group—that is, 1989 forward.

The directors of the Club held a special meeting in May 2004 at which they approved the plan to cease paying pre-1989 claims. The decision "shook up a lot of people," Bowles admits. A major commercial bank called the Club's action "drastic" and "controversial." *TradeWinds* declared, "Club walks away from asbestos claims" and noted that "asbestos-related injury claims more than 15 years old" would no longer be reimbursed by the American Club.

ABOVE: Lawrence J. Bowles has been the Club's general counsel since 2002.

In July 2003, the oil tanker *Tasman Spirit* ran aground near the entrance to the Karachi harbor, leading to one of the most tangled claims in the Club's history.



ABOVE: *Currents* is the Club's newsletter for members, brokers and other audiences. The May 2007 issue featured an article on ship recycling in India, including the removal of asbestos.

Hughes says the decision to stop paying pre-1989 claims was the right thing to do even though it caused quite a stir. In a circular distributed to the membership he stated, "Members in open years have no legal obligation to indemnify Members in closed years for unreserved or inadequately reserved claims."

Shortly after announcing its decision, the Club sought a declaratory judgment in federal district court reaffirming that it didn't have to pay the claims. The Club said its prior practice of reimbursing asbestos-related claims from closed years had been "discretionary" and was not required by its charter or by-laws or by New York State law. Alternatively, it asked the court to allow it to reopen the closed years and assess former members for the costs of their claims.

Four years of legal proceedings and negotiations ensued, resulting in 2008 in a confidential settlement that satisfied all parties.

The "Karachi Eight"

In July 2003, the oil tanker *Tasman Spirit*—which was insured by the Club—ran aground near the entrance to the Karachi harbor, leading to one of the more tangled claims, with a heavy dose of international politics, in the Club's history. The ship was carrying 67,535 metric tons of crude oil for delivery to a Pakistani refinery.

P&I clubs do more than settle their members' claims. They provide a wide range of services from loss prevention to help with legal issues and often play a major role in such matters as oil spill cleanup, wreck removal and negotiations to release detained mariners. The Club immediately sprang into action and worked closely with various parties—including local government officials, the owners of the *Tasman Spirit* and the International Tanker Owners Pollution Federation—in an attempt to prevent an oil spill and mitigate any environmental damage. However, efforts to refloat the ship failed, and she eventually broke apart, causing a major spill.

Dealing with the spill was challenging in its own right, but what happened to the crew was extremely troubling and became a *cause célèbre*. Although the ship had been under the control of a pilot licensed by the Karachi Port Authority when she ran aground, Pakistan detained her master and six crew members and charged them with criminal negligence. A salvage master arrived a month later, and he too was detained even though he had not even been present when the grounding and spill occurred. The detention of the "Karachi Eight," as they became known, drew widespread international condemnation. The United Nations International Maritime Organization protested their arrest and detention as unwarranted. The European Union accused Pakistan of using the men as "bargaining tools" in an attempt to win a large financial settlement.

The Club and others cleaned the spill even as the standoff over the detainees continued. In March 2004, eight months after the grounding, Michael Mitchell, then general counsel of Shipowners Claims Bureau, told *Marine Reporter and Engineering News Magazine* that the Club had "cleaned up the oil, removed the wreck and offered to pay compensation in accordance with international standards." He said the Club had "done everything expected of us. It is now up to Pakistan to release the

Karachi Eight." This persistence paid off. The men were finally released in April 2004 after nine months in custody.

The Club won accolades for its handling of a highly charged situation and its refusal to yield on the issue of the Karachi Eight. *Lloyd's List* honored the Club with its prestigious P&I/Insurance Services Award. Tsavliris Salvage Group, which employed the salvage master who had been detained, said, "The American Club has been exemplary as a P&I insurer in making the rights and well-being of these men a priority."

Although the incident had a happy ending, it was an unmistakable sign that times were changing. A century ago, when the American Club was founded, P&I clubs levied calls and assessments and paid claims but did not have many responsibilities beyond that. Today P&I clubs and their members face a host of complex issues, including war and terrorism risks, international sanctions, oil embargos, a resurgence of piracy, larger ships with huge risk exposures per keel, increased regulation, and the criminalization and detention of seafarers in accidents like the *Tasman Spirit* spill, all within the framework of growing world trade and the increasing importance of ocean-going transport (and thus of P&I coverage) to the global economy.

The American Club is no longer the simple little organization your great-grandfather may have known. The Club heads into its second century with many new challenges, opportunities and responsibilities.

ABOVE: **The *Tasman Spirit* broke in two 17 days after running aground on July 27, 2003.**

CHAPTER ELEVEN

The American Club: A Celebration

"There is no saltier end of the marine insurance business than the P&I clubs," Joe Hughes says. "We have a culture of responding to shipowners' needs and are more closely involved with our members than any other marine insurers."

Those needs continue to evolve as seaborne trade expands and the maritime business becomes more complex. Commerce on the seas has a long and noble tradition. The Phoenicians developed it on a grand scale more than 3,000 years ago, and it has been an essential element of economic growth ever since. As of 2015, seaborne trade totaled 1.5 metric tons of cargo per year for each man, woman and child on earth, triple the volume 30 years earlier. Everything from wheat to crude oil to consumer products and industrial machinery is transported by ship.

British journalist Rose George has called oceangoing shipping "the invisible industry that puts clothes on your back, gas in your car and food on your plate." Without ships, the global economy would grind to a halt. Passenger traffic is also on the rise with the resurgence of the cruise business over the past three decades. A leisurely cruise is one of the great pleasures of modern life.

P&I clubs play an important role in making seaborne commerce possible by insuring owners, operators and charterers against the financial risks of third-party liabilities. No responsible shipowner would go to sea without insurance.

The clubs in the International Group have a unique structure aimed at providing high limits of coverage at the lowest cost. They exemplify the concept of strength in numbers. Each club is a not-for-profit organization in which the members join together to insure each other. The clubs bolster their coverage by working together through the group. Each of the 13 clubs in the group can insure risks up to $1 billion for oil pollution, up to about $3 billion for crew and passenger claims and up to about $8 billion for all other losses through the group's pooling, reinsurance and overspill arrangements.

"The collective firepower of the International Group clubs, individually and the way they operate collectively, is utterly unsurpassed anywhere in the insurance industry," Hughes says. *Lloyd's List* has described the International Group as "arguably the most important institution" in the marine insurance market.

The American Club is one of the smaller clubs in the group, yet it has a global reach with members in nearly 50 countries. Moreover, it can match even the largest clubs in its insurance coverage due to the group pooling and reinsurance arrangements. "All International Group clubs offer basically the same core cover, so no club can really differentiate itself on this level," Dorothea Ioannou says. "What we believe we offer at the American Club is the service and expertise you will find from the largest clubs but with a very personal touch across the whole membership."

At the same time, each club has its own distinct character and personality. Hughes says of the American Club, "We tend to have an orientation toward what I call the middle market—that is, small to medium-sized owners, very often family operated, that are maybe six, eight, 10, 12 vessels, and equivalent stakes in much larger fleets." He also says, "We're large enough to handle any P&I problem or any P&I client of any size, but small enough to do so in a very personal way."

PRECEDING PAGES: The Statue of Liberty is one of the most widely recognized symbols of the United States.

ABOVE: Vicki Paradise is vice president–human resources.

LEFT: The American Merchant Mariners' Memorial honors US merchant sailors who have served in time of war. It was designed by sculptor Marisol Escobar, known simply as Marisol, and depicts four merchant mariners with their sinking vessel which has been attacked by a U-boat during World War II. The memorial is located in Battery Park near the American Club's New York office.

The Club prides itself on its flat management structure and aversion to red tape. "Because we're a smaller club," Solarino says, "the member can discuss any of their issues with all levels of management without pomp and circumstance. We have always had a close connection with our membership and have supported the needs of each member, whether large or small."

More Than Insurance

The clubs and the group represent an unmatched pool of maritime knowledge and service capabilities worldwide. The clubs do more than write insurance. They also manage claims for members, work with members to prevent accidents, put up letters of guarantee to secure the release of arrested ships and help in many other ways that exceed what for-profit insurers are typically able or willing to do. Shipowners Claims Bureau's staff includes lawyers, underwriters, accountants, claims managers, average adjusters, surveyors, former seamen and others with specialized skills. Staff members speak more than a dozen languages including Greek, Chinese, French, Hindi, Italian, Spanish, Turkish, Korean and English, according to Vicki Paradise, Shipowners' vice president of human resources. "We have an extraordinary group of people," she says.

Correspondents are a vital part of the equation. They provide a club and its members with support and advice in ports around the globe. Following the *Tasman Spirit* grounding in 2003, the American Club's correspondent in Karachi helped mobilize local resources to deal with the resulting oil spill and played an active role in ensuring the well-being of the detained "Karachi Eight."

The American Club was expanding its correspondent network when Hughes joined Shipowners in 1995. He and his team accelerated that expansion, recognizing that having a robust, worldwide network of correspondents was critically important as the Club became more international in its membership. By 2005 the Club had correspondents in 300 cities. Today, the network extends to nearly 350 cities—running the alphabetical gamut from Abidjan to Yangon.

Hughes and his team also strengthened the Club's loss prevention services. Hughes says loss prevention "was always an issue for the clubs, but it has come front and center over the past 20 years." Because a club's members are not only the insureds but also the insurers, they have a direct interest in promoting safety and holding down claims expenses.

The complexion of maritime claims has changed in recent years: claims frequency has fallen as shipowners and clubs have emphasized and reemphasized safe operations, but the average cost per claim has escalated due to inflation, court awards, regulatory requirements and other factors. Outlays for wreck removals, in particular, have skyrocketed. Improved technologies have made it possible—indeed, mandatory in some cases under environmental treaties and laws—to remove wrecks that once would have been left in place. Also, larger ships translate into more complex and expensive removal procedures.

In 1991, the North of England became one of the first clubs to establish a more proactive loss prevention program. Other clubs followed, with the result that P&I clubs are now a powerful force for maritime safety.

In 2003, Shipowners Claims Bureau hired William Moore to lead the American Club's efforts. Moore was recruited from Gard, the big Norwegian club, where he was vice president in charge of loss prevention, risk assessment and technical services. He holds

ABOVE: Dr. William Moore is senior vice president–loss prevention and regional director of underwriting.

BELOW: The international memorial "The Wife of the Seafarer" looks out to sea from the coast of Galaxidi, Greece. It was dedicated in 2008 and is the work of sculptor Kostas Ananidas.

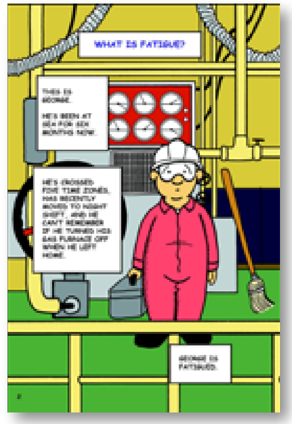
a master's degree from MIT and a doctorate in engineering, naval architecture and offshore engineering from the University of California at Berkeley.

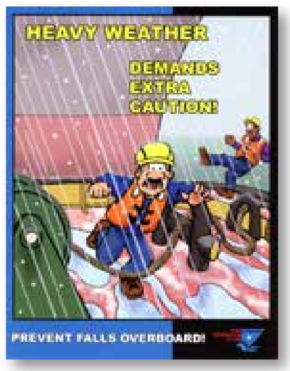
Moore studied the American Club's claims patterns and found that personal injuries and illnesses accounted for 34 percent of all claims by number and 22 percent by cost in 2001–2003. Surprisingly, nearly one-quarter of those claims stemmed from mariners' pre-existing health conditions. Seafarers were reporting for duty with serious medical problems despite having doctors' certificates stating they were in good health. "Too often we were finding that people were joining their ships and a week later were dropping dead with a heart attack, or were coming onboard with hepatitis and with bloated livers," Moore told a nautical publication in 2011.

In response, the Club established a program of pre-employment exams at qualified clinics. The program was inaugurated in 2004 and became mandatory in 2006 for members' hires from the Philippines, India, Russia and other nations that supply most of today's seafarers. Moore says pre-employment exams offer "the biggest bang for the buck of any loss prevention program we have in place."

Vessel surveys are another priority. "Every newly entered ship over 10 years old must be condition surveyed, usually within 60 to 90 days of attachment of cover," Moore says. In 2013, the Club tightened its policy to require that every vessel 10 years or older must be surveyed at least every three years regardless of whether it was subject to an earlier inspection.

In other important efforts, the Club has developed a variety of e-learning tools, guidance, best practices and brochures for use by members in their loss prevention and safety and environmental protection training programs. Hughes says the Club will





ABOVE: The Club has developed a series of booklets, posters and e-learning tools for use by members in their loss prevention and safety and environmental protection training programs.

"continue to work in partnership with our members to emphasize best practices."

Serving Members

The American Club has come a long way since its birth a century ago and especially in the past 20 years. It is larger and financially stronger. Moreover, unlike its early years, when it targeted itself specifically to the needs of the American-flag merchant fleet, it now serves a diverse group of members around the globe. In May 2016, the Club won the prestigious North American Maritime Services Award, given by *Lloyd's List* to an organization that has set itself apart by "going above and beyond best practice to offer the shipping industry something exceptional."

The Club holds a unique position as the sole US club in the International Group. Does the maritime industry really need a P&I club in the United States? "America is the biggest and most powerful economy, the biggest trading nation in the world," Hughes replies, "so it's perfectly natural that it should have a vigorous and successful P&I club. The P&I market is a broadly based church. It has plenty of room for everyone."

He notes that the existence of various clubs gives shipowners choices and makes the P&I market more robust and innovative. He also states, "For any shipowner who comes to America, we are here and we know our backyard better than anybody else. From a larger perspective, we have a very can-do attitude. That is part of our culture."

Looking ahead, Arnold Witte says the Club seeks to grow in several ways. "The American Club is not interested in size but will continue on the road to conservative expansion, keeping in mind that size in and of itself is not necessarily a key to

LEFT: P&I executives from around the world gathered in Beijing in 2004 to celebrate the 20th anniversary of the China P&I Club. Those in the photo include: Joseph Hughes, secretary of the American Club, front row far left; Paul Sa, American Club chairman, front row fourth from left; Wei Jiafu, chairman of China Ocean Shipping (Group) Company and chairman of the China P&I Club, front row fifth from left; Stephen James, chairman of Thomas Miller & Co. and chairman of the International Group of P&I Clubs, front row fourth from right; and George Yugui Wang, managing director of the China P&I Club, back row fifth from right.

BELOW: Each year the Club invites brokers and members to take part as spectators at Cowes Week off the Isle of Wight. Cowes Week got its start in 1826 and is the oldest and largest annual sailing regatta in the world.

success," he explains. "First and foremost, we want to maintain and selectively increase our mutual membership with owners who wish to have full and complete coverage and service and are willing to participate financially to ensure the growth and stability of the Club." He says the Club also wants "to assure a geographic balance [of membership] which is truly international in nature." He adds that the Club "will continue to explore related areas of marine insurance," such as its recent growth in fixed-premium P&I coverage for smaller vessels and its entry into the hull and machinery insurance market in 2016 through the formation of American Hellenic Hull Insurance Company.

Witte also emphasizes the continued importance of member service. "By being very selective in our choice of membership," he says, "we can give much greater personal attention to each and every member as the occasion might demand."

W. H. LaBoyteaux, the American Club's founder, pledged that the Club would evolve and change as its members' needs changed. The Club has done just that. The legacy of its first hundred years is clear: P&I clubs succeed through a combination of the right insurance products, a high level of service, professionalism, financial strength, responsiveness and a total focus on the needs of members. Hughes says the American Club will continue to be guided by these same time-honored principles as it enters its second century. Why not, indeed?

APPENDICES

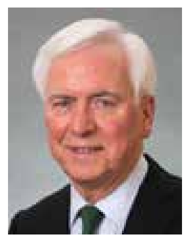
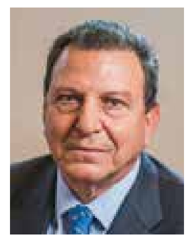
Directors of the American Club

ABOVE FRONT ROW: **Kenneth T. Engström,** *Cruise Management International, Inc.,* **Deputy Chairman Markos K. Marinakis,** *Marinakis Chartering, Inc.,* **Chairman J. Arnold Witte,** *Donjon Marine Co., Inc.,* **Steven T. Scalzo,** *Independent Board Member,* **Michael L. Murley,** *Martin Resource Management Corporation*

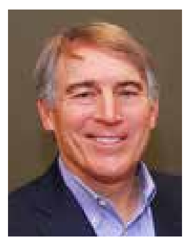
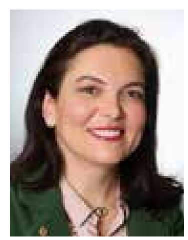
ABOVE BACK ROW: **John E. Couloucoundis,** *Delta Navigation Corporation,* **Martin C. Recchuite,** *Independent Board Member,* **Richard H. Brown,** *Independent Board Member,* **Angelos D. Kostakos,** *Oceanstar Management, Inc.,* **Craig Reinauer,** *Reinauer Transportation Companies, LLC,* **George Vakirtzis,** *Polembros Shipping, Ltd.,* **Chih-Chien Hsu,** *Eddie Steamship Company, Ltd.*

Directors as of June 2016

RIGHT TOP ROW: **Panagiotis Christodoulatos,** *Ikaros Shipping & Brokerage Co., Ltd.*, **James P. Corcoran,** *Independent Board Member,* **Elias Gotsis,** *Eurotankers, Inc.,* **George D. Gourdomichalis,** *Phoenix Shipping & Trading, S.A.*


RIGHT BOTTOM ROW: **Cliffe F. Laborde,** *Laborde Marine, LLC,* **Katia Restis,** *Enterprises Shipping & Trading S.A.,* **Lianyu Zhu,** *CCCC International Shipping Corporation*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BACK ROW: William H. Moore, Dr. Eng., *Senior Vice President, Loss Prevention & Regional Director Underwriting*, **Manny Beri,** *Senior Vice President, IT,* **Thomas R. Hamilton,** *Senior Vice President, Underwriting*, **Dorothea Ioannou, J.D.,** *Managing Director, SCB (Hellas) Inc. & Senior Vice President, Global Business Development*, **Arpad A. Kadi,** *Senior Vice President, Treasurer*, **Charles J. Cuccia,** *Senior Vice President, Compliance,* **Donald R. Moore,** *Senior Vice President, Claims Manager,* **George J. Tsimis, J.D.,** *Senior Vice President, Claims Director, General Counsel (SCB, Inc.)*

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The American Club Timeline

1855 Shipowners' Mutual Protection Society, the world's first protection and indemnity (P&I) club, is formed in the UK.

1897 Skuld in Norway becomes the first P&I club outside the UK.

1917 Insurance broker Johnson & Higgins establishes the American Club, the first and only P&I club in the Western Hemisphere, to insure its American-flag clients during World War I. Founding members include Grace Line, Texas Company (a predecessor of Texaco), United Fruit Company and other leading American-flag companies.

• The Club is located initially in the offices of J&H at 49 Wall Street, New York, and is managed by J&H's Club Department. Russell Loines of J&H is appointed secretary. The Club recruits an influential, five-member board of directors; Alfred G. Smith, president of Ward Line, is elected board chairman.

1918 The federal Shipping Board becomes a member of the Club and enters the entire US government-owned merchant fleet in the Club from 1918 through 1923.

1922 Entered tonnage reaches an early peak of 9.4 million, making the Club one of the largest P&I clubs in the world at that time.

• Russell Loines dies and is succeeded as secretary by Jocelyn Herle de Grasse Evans.

1926 Joseph D. Tomlinson of American-Hawaiian Steamship Company succeeds Alfred G. Smith as chairman.

• Johnson & Higgins and the Club move to 67 Wall Street.

1927 Entered tonnage, which has been declining since the Shipping Board withdrew in 1923, reaches an all-time low of 1.3 million in the face of stiff competition from British and Scandinavian clubs.

• Johnson & Higgins creates a wholly owned subsidiary, Shipowners Claims Bureau, Inc., to manage and revitalize the Club. The Club and Shipowners move to 104 Pearl Street in the Wall Street financial district. Concurrently, the Club opens its membership to all American-flag companies, not just clients of J&H.

1928 Oil giant Standard Oil of New Jersey joins the Club and enters many of its tankers. It continues as the Club's largest member, representing about one-quarter of entered tonnage, for the next 14 years.

1929 The stock market crashes and the Great Depression, the most severe economic downturn in history, begins. The Club survives the Depression and slowly builds its entered tonnage from 1.8 million in 1932 to 2.2 million in 1938.

1930 Paul H. Harwood of Pan American Petroleum and Transport Company is elected chairman, succeeding Tomlinson.

1931 Jocelyn Evans dies. Henry I. Bernard becomes secretary.

1934 The Club and Shipowners relocate to 64 Water Street, just south of Wall Street.

1936 Robert F. Hand of Standard Oil of New Jersey is elected chairman.

1941 Ernest M. Bull of A. H. Bull Steamship Company becomes chairman.

• The United States enters World War II.

1942 The War Shipping Administration (WSA), which manages the US government's World War II merchant fleet, buys P&I coverage from the Club from 1942 through 1947.

1943 The Club and Shipowners relocate to 25 Broad Street, where they will remain for the next 37 years.

• Basil Harris of United States Lines is elected chairman.

1945 Entered tonnage reaches a World War II peak of 7.1 million due largely to ships entered by the WSA.

• Christian "Chris" Williamson becomes secretary, succeeding Henry Bernard.

1948 John E. Slater of American Export Lines is elected chairman.

1952 The *SS United States* is launched and is entered in the Club. She is the largest, fastest and most luxurious American-flag ocean liner ever built and continues to be insured by the Club until she is laid up in 1969.

1956 Charles D. Gibbons of United States Lines is elected chairman.

1969 Adolph Kurz of Keystone Shipping Company is elected chairman.

1973 John H. Cassedy becomes secretary, succeeding Williamson.

• The directors vote to admit foreign-flag members. However, it will be another seven years before the Club enlists its first such member, Netumar Lines of Brazil.

1979 Thomas J. Smith of Farrell Lines is elected chairman.

1980 The Club and Shipowners relocate to Five Hanover Square.

1981 James Henry becomes secretary, succeeding Cassedy.

1983 Thomas J. McGowan becomes secretary, succeeding Henry.

1989 The Club becomes a reinsured member of the London-based International Group of P&I Clubs, giving it access to the group's low-cost reinsurance arrangements.

1994 Charles Kurz II of Keystone Shipping is elected chairman.

• The directors approve Vision 2000, a strategic plan to improve the Club's competitiveness and increase its entered tonnage. Key objectives include international expansion and the enhancement of member services.

1995 Entered tonnage is 3.8 million. Membership is 95 percent US and 5 percent non-US by domicile.

• Shipowners Claims Bureau recruits Joseph E. M. Hughes, a European insurance executive with extensive P&I experience, as its chairman and CEO.

1997 Shipowners becomes a subsidiary of insurance broker Marsh & McLennan when Johnson & Higgins is acquired by Marsh.

• Richard F. Gronda of Farrell Lines is appointed interim chairman of the Club in February, serving until Paul Sa of Standard Shipping Inc. is elected chairman in June.

• Membership is 73 percent US and 27 percent non-US as the Club's international expansion takes hold.

1998 The Club is admitted to the International Group as a full pooling member. Aided by this change, entered tonnage increases dramatically over the next several years, reaching 19.1 million in 2003.

• The Club opens its first non-US office in London, a global center of marine insurance brokerage.

2000 McGowan retires as secretary of the Club and is succeeded by Hughes.

• The Club and Shipowners move to 60 Broad Street.

2002 Shipowners' senior management forms a holding company, Eagle Ocean Management LLC, which acquires Shipowners Claims Bureau from Marsh & McLennan. Shipowners continues to be owned today by its senior management.

2005 The Club expands its international presence by opening an office in Piraeus.

• The Club wins the prestigious P&I/Insurance Services Award of *Lloyd's List*.

2006 The Club and Shipowners relocate to One Battery Park Plaza.

2007 The Club opens an office in Shanghai.

• J. Arnold Witte of Donjon Marine Co. is elected chairman, succeeding Sa.

2010 Membership is now 15 percent US and 85 percent non-US. The Club has successfully repositioned itself as a global organization serving members worldwide.

2016 The Club enters the global hull and machinery market by investing in a new insurer, American Hellenic Hull Insurance Company, based in Cyprus.

• The Club extends its US presence by opening an office in Houston.

• The Club wins the *Lloyd's List* North American Maritime Services Award.

2017 The Club celebrates its 100th anniversary.

Chairmen and Secretaries of the American Club

Chairmen

Alfred G. Smith, Ward Line, 1917–1926

Joseph D. Tomlinson, American-Hawaiian Steamship Company, 1926–1930

Paul H. Harwood, Pan American Petroleum and Transport Company, 1930–1936

Robert F. Hand, Standard Oil Company of New Jersey, 1936–1941

Ernest M. Bull, A. H. Bull Steamship Company, 1941–1943

Basil Harris, United States Lines, 1943–1948

John E. Slater, American Export Lines, 1948–1956

Charles D. Gibbons, United States Lines, 1956–1969

Adolph Kurz, Keystone Shipping Company, 1969–1979

Thomas J. Smith, Farrell Lines, 1979–1994

Charles Kurz II, Keystone Shipping Company, 1994–1997

Richard F. Gronda, Farrell Lines, 1997 (interim chairman)

Paul Sa, Standard Shipping Inc., 1997–2007

J. Arnold Witte, Donjon Marine Co., Inc., 2007–

Secretaries

Russell Loines, 1917–1922

Jocelyn Herle de Grasse Evans, 1923–1931

Henry I. Bernard, 1931–1945

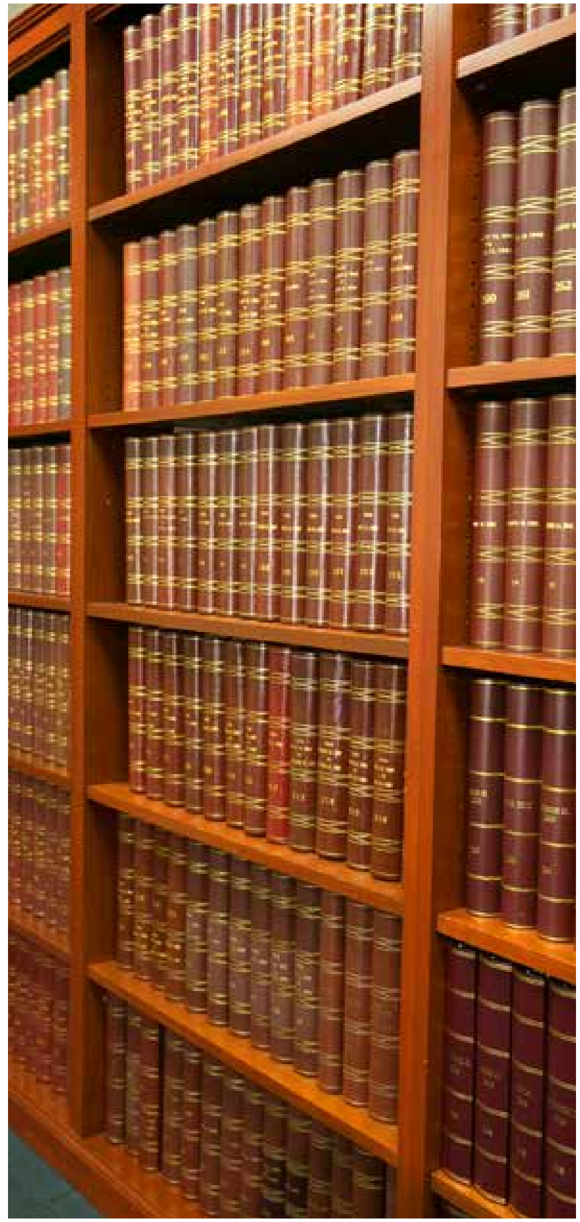
Christian Williamson, 1945–1973

John H. Cassedy, 1973–1981

James Henry, 1981–1983

Thomas J. McGowan, 1983–2000

Joseph E. M. Hughes, 2000–



RIGHT: Leather-bound volumes containing the records of every board meeting since the first one on February 17, 1917, line a wall of the American Club's library at its New York office.

Acknowledgments

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Thomas J. McGowan
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Dr. William H. Moore
Vicki A. Paradise
Christine Reynolds
Paul Sa
John Sandercock
Vincent J. Solarino
John Steventon
Richard L. Swan
Stuart Todd
J. Arnold Witte
Elena A. Zaccario

—Richard Blodgett
New York
June 2016

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Christine Reynolds, Art Director and Production Manager Christine Reynolds specializes in historical publications and exhibitions. In addition to business histories designed for CorporateHistory.net, Brown Brothers Harriman, and the YMCA of Greater Boston, she has produced displays for Christ Church Cambridge and the Munroe Tavern, an American Revolutionary War site. Christine is based in Waltham, Massachusetts.

John Steventon, Illustrator John Steventon is a professional illustrator, cartoonist, writer and publisher. His illustrations appear regularly in *Currents* magazine and many other American Club materials. John and his work have been featured worldwide in print and digital media, including textbooks, comics and magazines. He is a member of The National Cartoonists Society and the owner of HappyGlyph Comics, where he has produced several comic books and a graphic novel.

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Artwork on the title spread and pages 7, 8–9, 20–21, 32–33, 42–43, 54–55, 68–69, 84–85, 100–101, 114–115, 122–123, 140–141, 144 (safety posters) and 146 is by John Steventon.

CHAPTER ONE **Page 11:** top: Courtesy of Britannia Steam Ship Insurance Association Limited/Photo by Stephen Bond (1866 document); **11:** bottom: Wikimedia/Creative Commons (Lord Campbell); **12:** Library of Congress (William Humphrey); **13:** top: Library of Congress (1915 cartoon); **13:** bottom: Library of Congress (recruiting station); **14:** bottom: Wikimedia/Creative Commons (Pierrepont Terrace, Brooklyn, NY); **15:** top: Courtesy Johnson & Higgins/Marsh & McLennan (W. H. LaBoyteaux); **15:** center: Keeneland Association/Photo by Bert Morgan (Imperatrice); **16:** top right: Museum of the City of New York (image X2010.7.1.5071, Wurts Bros., New York, NY, 49 Wall Street, Union Bank of Canada, exterior detail circa 1917); **16:** bottom: Wikimedia/Creative Commons (*The Sun,* 20 February 1917); **18:** right: Library of Congress (United Fruit freighter); **19:** top: Google Books (Alfred G. Smith, *Nautical Gazette,* 13 November 1920)

CHAPTER TWO **22:** bottom: © Bettmann/Getty Images (*New York Journal,* 6 April 1917); **23:** top: Library of Congress (1917 Victory poster); **23:** bottom: Library of Congress (Robert Dollar); **24:** top: Library of Congress (George C. Marshall); **24:** bottom: US Navy *(Tenadores)*; **25:** US Navy *(Frank H. Buck)*; **26:** top: © Archive Photos/Getty Images (1918 wooden ship); **26:** bottom: Library of Congress (1915–1920 wood-hull interior); **27:** Library of Congress (1918 Tidal Wave poster); **28:** left: Library of Congress (1918 Hog Island cartoon); **28:** center: © LIFE Picture Collection/Getty Images (1918 *Quistconck*); **28:** bottom: Gift of Capt. Raymond A. and Catherine M. Kotria, Division of Work & Industry, National Museum of American History, Smithsonian Institution (1919 ship model); **29:** Library of Congress (1923 Albert Lasker, Warren Harding and Babe Ruth); **31:** Brooklyn Public Library (*Brooklyn Daily Eagle,* 1 April 1923)

CHAPTER THREE **34:** top: Library of Congress (1918 Charles Schwab and Edward Hurley); **34:** bottom: © LIFE Picture Collection/Getty Images (1918 Hog Island); **35:** bottom: From the collection of Björn Larsson, courtesy of www.timetableimages.com/maritime (American Scantic Line brochure); **36:** New York Public Library (Royal Welch Fusiliers card); **38:** Moore-McCormack.com, courtesy of Bill Vinson (Albert V. Moore); **39:** Museum of the City of New York (image 49.282.118, Berenice Abbott, 1898–1991, Hanover Square, New York, NY, 1936); **40:** top left: US Coast Guard (1915 William P. Kain) ; **40:** top right: Library of Congress (1935 Ira A. Campbell); **40:** bottom: Library of Congress (1937 Safety First poster); **41:** © Bettmann/Getty Images (1922 Standard Oil building, New York City)

CHAPTER FOUR **44:** left: Library of Congress (1919 saloon); **44:** right: Library of Congress (Prohibition street scene); **45:** left: Library of Congress (August Busch); **45:** top right: © Leemage/UIG via Getty Images (8 July 1923 *Le Petit Journal)*; **46:** bottom: © Topical Press Agency/Stringer/Getty Images (1926 torpedoes); **47:** right: Library of Congress (*Orizaba* World War II); **48:** © Keystone-France/Getty Images (1930 cargo vessels in port); **49:** bottom: Courtesy of American Bureau of Shipping (American Export Lines *SS Exemplar*); **50:** Library of Congress (1936 Franklin D. Roosevelt); **51:** © Hulton Archive/Getty Images (1924 Lloyd's of London); **52:** Library of Congress (1937 Foreign Trade Zone poster); **53:** Library of Congress (1937 Joseph P. Kennedy and US Maritime Commission)

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