Contents

Foreword	vii
Preface	ix
Table of Cases	000
Table of Legislation	000
Table of Statutes	000
Table of Conventions, etc.	000
Table of Directives	000
PART 1—THE NATURE OF THE SHIPBUILDING CONTRACT	1
The Sale of Goods Act 1979	3
PART 2—THE FORMATION OF THE SHIPBUILDING CONTRACT	5
Formal requirements	5
Shipbuilding practice: negotiation of the contract and specifications	7
Inception of the project	8
Invitations to tender	8
Initial negotiations	9
Letters of intent	9
Bridging contracts	12
Final negotiations	13
Standard forms of contract	13
The SAJ Form	14
Other contract forms	14
PART 3—STANDARD TERMS	15
The preamble	17
Allocation of the design risk	19
Where the design risk is addressed	19
Where the design risk is not addressed	20
The standard forms	21
Plan and drawing approvals	22
Article I—Description and class	23
Hull number	24
Compliance with principal plans and drawings	25

•	
X1V	CONTENTS

Dimensions and characteristics	25
Performance guarantees	26
Classification and other regulatory requirements	27
(i) Classification requirements	27
(ii) Regulatory requirements	31
(iii) Disputes	33
Quality standards and quality assurance	33
Subcontracting	35
Registration	37
Article II—Contract price and terms of payment	38
Financing the newbuilding	40
(1) Financing for the builder	40
The buyer's instalments	40
Additional financing	41
(2) Financing for the buyer	42
(i) Builder's credits	43
SAJ Form variations	43
(ii) Buyer's credits	44
(3) Subsidies	44
The OECD framework	44
Contract subsidy provisions	45
Terms of payment	45
(a) Bank charges	45
(b) Currency	46
(c) Timing	46
(d) Security for payment	49
(e) Prepayments	49
(f) Rights of set-off and deduction	50
(g) Common law rights of abatement	51
Method of payment	52
Buyer's allowances	53
Price renegotiations	56
Article III—Adjustment of contract price	59
Liquidated damages	62
(i) Delay in delivery	68
(a) The accrual of the buyer's rights	69
(b) The level of liquidated damages	71
(c) The buyer's right to rescind for excessive delay	71
(d) Repudiation of the contract	73
(e) The builder's bonus	73
(ii) Insufficiency of speed	74
(iii) Excessive fuel consumption	75
(iv) Inadequate deadweight capacity	76
(v) Other deficiencies	76
Settlement of the builder's liability in liquidated damages	77
Liquidated damages and rescission	78
"Caps" on liquidated damages	78

CONTENTS	xv
Article IV—Approval of plans and drawings and inspection during construction	79
Approval of plans and drawings	81
Buyer's representatives	83
The obligation to notify defects	85
Liability for the buyer's representatives	86
Unsuitability of the buyer's representatives	88
Article V—Modifications	89
Buyer's modifications	90
"Class" modifications	92
Builder's modifications	93
Disputes	94
Article VI—Trials	97
Notice of the trials	100
The conduct of the trials	101
(i) Location	101
(ii) Weather conditions	101
(iii) Crewing and navigation	102
(iv) Provisioning	102
Completion of the trials: the meaning of "acceptance"	103
Method of acceptance or rejection	104
Presentation of the trial results	104
The buyer's election	104
Acceptance of the vessel	105 106
Rejection of the vessel When is the vessel deliverable?	100
A. General principles	107
Conditions, "innominate" terms and warranties	108
Principles of construction	109
The right to reject goods on quality grounds	110
B. The application of the general principles	111
(i) Where the statutory implied terms are excluded by the terms	
of the contract	112
(ii) Where the statutory implied terms are not excluded by	
the terms of the contract	115
General principles	115
(a) Compliance with description	115
(b) "Satisfactory quality"	118
(c) Reasonable fitness for purpose	120
The effect of rejection	121
(a) Lawful rejection	122
(b) Unlawful rejection	123
Article VII—Delivery	126
Delivery of the vessel	127
The place of delivery	127
The time of delivery	127
Early delivery	129
The vessel's condition on delivery	129

xvi contents

Delivery documentation	130
(a) The Protocol of Delivery and Acceptance (the "Protocol")	130
(b) Other documentation	131
Protocol of Trials	132
Protocol of Inventory of Equipment	132
Protocol of Fuel Oils, Lube Oils and Consumable stores on board	132
Classification and trading certificates	132
Declaration of warranty of freedom from encumbrances	133
Drawings and plans	134
Commercial invoice	134
Bill of sale/builder's certificate	134
Further documents	135
Title to the vessel	135
(a) The effect of the <i>lex situs</i>	136
(b) The effect of English law	136
(i) No express provision in the contract	136
(ii) Title passing upon delivery and acceptance	138
(iii) Title passing prior to delivery and acceptance	139
(c) The builder's lien	143
Risks of loss or damage	143
"Deemed" delivery	145
Removal of the vessel from the shipyard	145
Article VIII—Delays and extension of time for delivery (force majeure)	146
Force majeure: general principles	148
(i) Delay caused by or comprising the builder's breach of contract or negligence	149
(ii) The effects of a prior breach	151
(iii) "Concurrent" delays	152
Standard Form wordings	154
(a) Force majeure events	154
"Acts of God"	155
"War or other hostilities or preparations therefor"	156
"Strikes, lockouts or other labour disturbances"	156
"Labour shortage"	158
"Explosions"	158
"Shortage of materials, machinery or equipment delays in delivery etc." "Defects in materials, machinery or equipment which could not have been detected	159
by the builder using reasonable care" "Delays in the builder's other commitments which in turn delay construction	159
of the vessel"	160
"Other causes or accidents beyond the control of the builder, its subcontractors or	
suppliers whether or not indicated by the foregoing words"	160
(b) The impact of <i>force majeure</i> events	163
(c) The requirement of notice	164
(d) Permissible delay	166
(e) Excessive delay	167
(f) Frustration	168
Article IX—Warranty of quality	170
The nature of the builder's warranty	172
Limitation upon the builder's warranty	174

CONTENTS	xvii
Defects existing on delivery	174
Time limits	175
Loss of use	176
Replaced parts	176
Subcontractors' warranties	176
Damage caused to the vessel	177
The requirement of notice	178
The obligation to remedy	178
To whom is the builder's obligation owed?	180
Exclusions	182
(a) Express terms of the contract	183
(b) Consequential or special losses	185
(c) Circumstances outside the builder's control	186
(d) Implied terms of the contract	187
The Unfair Contract Terms Act 1977	188
The test of reasonableness	189
The guarantee engineer	191
Article X—Rescission by buyer	193
The buyer's right to rescind	194
(i) Delay in delivery	194
(ii) Technical deficiencies in the vessel	194
(iii) "Financial" defaults	195
(iv) Total loss of the vessel	196
(v) Other defaults	196
The effect of the buyer's rescission	197
The builder's obligation to refund	197
Damages	199
Buyer's supplies	201
Title to the vessel	202
Rights to complete the contract works	202
The buyer's common law remedies	205
Acceptance of the builder's repudiatory breach	205
Specific performance	206
Article XI—Buyer's default	208
The definition of default	209
Notice of default	210
The effect of default	210
The effect of rescission by the builder	213
Prepaid instalments	213
Instalments due but unpaid	214
Future instalments	217
Buyer's supplies	217
Sale of the vessel	217
Common law remedies	220
Article XII—Insurance	222
The duty to insure	223
The Japanese builder's risks insurance clause	224

xviii Contents

The London Insurance Clauses	225
The scope of coverage	225
Latent defects	228
Buyer's supplies	229
Assignment	229
Partial losses	230
Total loss	231
Delayed delivery/cancellation insurances	232
Article XIII—Dispute and arbitration	233
Standard form arbitration provisions	234
The SAJ Form	235
The NEWBUILDCON Form	235
The CMAC Form	235
Technical and non-technical arbitrations	235
Technical disputes	236
Non-technical disputes	237
Arbitration proceedings in London	238
The constitution of the arbitration tribunal	239
The proceedings	239
Appeals	239
Agreements to waive the right to appeal	240
Back-to-back contracts	240
Other standard provisions	241
Judicial proceedings	242
Alternative Dispute Resolution	243
Article XIV—Right of assignment	245
General principles relating to assignment	246
1. Benefits	246
2. Burdens	246
3. Prohibitions upon assignment	247
4. "Consent not to be unreasonably withheld"	249
The Contract (Rights of Third Parties) Act 1999	250
Shipbuilding contract assignments	251
The standard forms	252
Novation	253
Article XV—Taxes and duties	254
Article XVI—Patents, trademarks, copyrights, etc.	255
Property in plans, drawings, etc.	256
Article XVII—Buyer's supplies	257
Article XVIII—Notice	261
Article XIX—Effective date of contract	263
Conditions precedent and subsequent	263
Conditions and contractual obligations	264
Conditions precedent and subsequent in shipbuilding contracts	264

CONTENTS	xix
Reliance upon Effective Date provisions	265
Waiver of conditions	270
That of conditions	270
Article XX—Interpretation	273
Applicable law	273
Express choice of law	273
No express choice of law	274
Discrepancies	275
Entire agreement	275
"Non-reliance" provisions	276
Express exclusions of liability for misrepresentation	278
Article XXI—Sundry provisions	279
Guarantee	280
Other twicel shiphyilding contract towns	281
Other typical shipbuilding contract terms	201
Suspension of the work	281
Environmental protection	282
Confidentiality	283
Exclusions and limitations of liability	284
PART 4—AGREEMENTS ANCILLARY TO THE SHIPBUILDING	
CONTRACT	287
CONTRACT	207
I. The specifications	287
II. Guarantees issued on behalf of the builder	288
Refund guarantees	289
Performance guarantees	293
Completion bonds	294
The enforceability of the builder's guarantees	295
(a) The Statute of Frauds 1677	296
(b) Other formalities	297
(c) The requirement of disclosure	298
(d) The effect of variations to the underlying contract	300
III. Guarantees issued on behalf of the buyer	303
Pre-delivery guarantees	304
Post-delivery guarantees	305
IV. Letters of comfort	306
V. Contract assignments	307
VI. Option agreements	308
PART 5—SHIP CONVERSION CONTRACTS	311
I. The distinctive features of the conversion project	311
II. The nature of the conversion contract	313
III. The key terms of the conversion contract	313
The scope of the works	314
Price	314
Time-frame	315
Force majeure	315

XX CONTENTS

Title to the works	315
Risk of loss and insurance	315
Contractor's warranty	316
Rescission	316
Law and jurisdiction	316
APPENDIX A—BIMCO Standard Newbuilding Contract	
(NEWBUILDCON FORM)	317
Section 1: Vessel	325
Clause 1: Builder's and buyer's obligations	325
Clause 2: Description	325
Clause 3: Classification, rules and regulations	325
Clause 4: IMO Hazardous Materials Inventory	326
Clause 5: Protective coatings	326
Clause 6: Source of origin	326
Section 2: Financial	327
Clause 7: Contract price	327
Clause 8: Speed deficiency	327
Clause 9: Excessive fuel consumption	327
Clause 10: Deadweight deficiency	328
Clause 11: Cubic capacity deficiency	328
Clause 12: Other deficiencies (optional clause)	328
Clause 13: Late delivery for non-permissible delays	328
Clause 14: Guarantees	328
Clause 15: Payments	329
Clause 16: Taxes, duties, stamps, dues and fees	330
Clause 17: Right to set-off	331
Clause 18: Interest	331
Section 3: Production	332
Clause 19: Sub-contracting	332
Clause 20: Approvals	332
Clause 21: Buyer's supplies	333
Clause 22: Buyer's representative, assistants, officers and crew	334
Clause 23: Inspections, tests and trials	334
Clause 24: Modifications and changes	335
Clause 25: Builder's modifications and substitution of materials	336
Clause 26: Changes in rules and regulations	336
Clause 27: Sea trials	336
Section 4: Delivery	339
Clause 28: Delivery	339
Clause 29: Documents on delivery	339
Clause 30: Final instalment	340
Clause 31: Title and risk	340
Clause 32: Possession and removal of the vessel	340
Clause 33: Vessel registration	341
Section 5: Legal	342
Clause 34: Permissible delays	342
Clause 35: Builder's guarantee	343
Clause 36: Guarantee engineer	344
Clause 37: Responsibilities and exclusions from liabilities	344

CONTENTS	xxi
Clause 38: Insurances	346
	340
Clause 39: Suspension and termination Clause 40: Copyrights, trade marks and patents	350
Clause 41: Governing law	350
Clause 42: Dispute resolution	350
Section 6: Sundry	354
Clause 43: Notices	354
Clause 44: Effective date of contract	354
Clause 45: Assignment	354
Clause 46: Options	354
Clause 47: Entire agreement	355
Clause 48: Third party rights	355
Annexes	356
Thurenes	330
APPENDIX B—CMAC Standard Newbuilding Contract (Shanghai	
Form)	365
1.01111)	303
Section 1: Vessel	367
Article I: Description	367
Article II: Classification, rules and regulations	367
Article III: Design—Liability in the design contract	369
Article IV: Environmental protection	369
Section 2: Financial	370
Article V: Contract price and terms of payment	370
Article VI: Adjustment of the contract price	371
Article VII: Taxes and duties	375
Section 3: Production	375
Article VIII: Approval and acceptance of plans and drawings	375
Article IX: Supervision and inspection	376
Article X: Subcontracting	377
Article XI: Buyer's supplies	377
Article XII: Modifications, changes and extras	378
Article XIII: Sea trials	379
Section 4: Delivery	381
Article XIV: Delivery and delivery documents	381
Article XV: Delays—Extension of time for delivery (<i>force majeure</i>)	382
Article XVI: title and risk	383
Article XVII: Possession and removal of vessel	383
Article XVIII: Vessel registration	383
Article XIX: Builder's guarantee of quality	383
Article XX: Guarantee period and guarantee engineer	385
Section 5: Legal	385
Article XXI: Law applicable	385
Article XXII: Buyer's default	385
Article XXIII: Builder's default	387
Article XXIV: Assignment of the contract	387
Article XXV: Lien and mortgage of the vessel	388
Article XXVI: Dispute resolution and arbitration	388
Article XXVII: Suspending and termination	389
Article XXVIII: Insurance	390
Article XXIX: Patents, trademark and copyrights	391

XX11	CONTENTS

Section 6: Sundry	392
Article XXX: Notice and language	392
Article XXXI: Option	392
Article XXXIII: Effective conditions and date of contract	393
Article XXXIII: Entire agreement	393
Annexes	393
APPENDIX C—INSTITUTE CLAUSES FOR BUILDERS' RISKS	399
Institute Clauses for Builders' Risks (1/6/88)	399
Institute War Clauses for Builders' Risks	407
Institute Strike Clauses for Builders' Risks	409
Builders' Risks: Institute Clause for Limitation of Liability in respect of Faulty	
Design & P. & I. Risks	410
Institute Deductible Clause Builders' Risks	410
APPENDIX D— LONDON MARINE CONSTRUCTION ALL RISKS	
WORDING	411
Index	437