

BULLETIN

November 2014

To all Members

Carriage of steel cargoes

We write to inform Members of the Managers' analysis of the Club's exposure to steel cargo claims, which has led the Club to revise its policy on precautionary surveys for steel cargoes. The analysis followed a year long data collection exercise, conducted by the Managers' loss prevention department, on steel loading, discharge and damage surveys and all steel claims notified to the Club.

History

Precautionary steel surveys were first considered in the early 1960s, following concerns that shipowners were being induced to accept letters of indemnity (LOIs) in exchange for agreeing to issue clean bills of lading despite steel cargoes being loaded in a rust damaged condition. At that time substantial amounts of steel were being shipped from Europe to the United States and the clubs found themselves exposed to significant claims alleging salt water wetting.



By the 1970s the problem had spread to steel products being shipped from Japan to Northern Europe. Throughout this period steel cargoes were routinely carried on an ageing general cargo fleet, often found to have defective hatch covers, or were carried on board single deck handy size bulk carriers with insufficient ventilation to deal with the problem of sweating.

The combination of clean bills of lading being issued against LOIs and an inability to distinguish between the pre-shipment condition of cargo and damage that may have occurred during carriage resulted in the almost universal adoption by clubs of precautionary pre-loading and discharge surveys. The aim of those surveys was to mitigate losses and to protect shipowners against exaggerated or spurious claims.

Those arrangements have been reviewed periodically, including following the adoption of the "Retla" clause. The most recent statement of the Club's policy on precautionary steel surveys was set out in its Circular dated December 2003.

The data

231 steel cargo files were opened during the review period. Of those 231 files, only 19 involved actual cargo claims, or potential cargo claims, with claim estimates totalling approximately USD1.72 million. By contrast, approximately USD845,000 has been allocated to fees (USD385,000 paid and an additional USD460,000 estimated), the vast majority of which relates to the surveying process.

The findings

(a) Causes of steel cargo claims

In 6 of the 19 claims the cause of damage was a failure to properly stow and lash the cargo. That



failure lead to the stow shifting during adverse weather conditions, resulting in cargo damage. Therefore Members should pay particular attention to stowage planning and the proper stowage, chocking and lashing of steel cargoes.

When safe to do so, periodic checks should be made and lashings tightened or modified as necessary.

The remaining claims arose from various causes including post-discharge damage caused by poor stevedore handling, a ballast water leakage and defective hatch covers.

(b) Precautionary load surveys

A number of files were reviewed where a precautionary pre-load survey was conducted and no claim arose. The question asked was: "do these surveys reduce the Member's exposure to potential claims?" An important finding was that the discovery of pre-shipment damage during these surveys did not always result in the bill of lading being clausued.



It is now the case that much of the cargo surveyed is in a sound condition. Where cargo does have pre-shipment damage, this damage is often obvious, such as rusting to hot rolled plate or wire in coils. Such damage would be apparent to the master in any event.

However, the significant quantities of cargo loaded and the nature of some of the minor physical damage identified does mean that some of this minor damage may not be seen by a master or the deck officers during loading.

Consignments of cold rolled steel coil occasionally had minor packing damage, although there was no evidence that this resulted in claims.

(c) Precautionary discharge surveys

Precautionary discharge surveys were found to be of limited use due to their unfocused nature and therefore lack of evidential value. Of greater benefit were specific surveys conducted when actual damage had been found.

So, has the steel trade changed?

Steel continues to be a commodity shipped in large quantities but the carriage of these cargoes has improved dramatically since the 1970s. The quality of ships and of their operation (including owners' best practices when carrying these cargoes) as well as the improved claims culture in the United States and Europe have all contributed to a more balanced risk. The availability of photographic evidence to substantiate the condition of cargo throughout its carriage has also assisted.

Against that background, as evidenced by the analysis of the data collected, steel cargoes are no longer disproportionately claim-sensitive or routinely subject to spurious or exaggerated claims. Rather, the claims which do arise invariably result from causes that precautionary surveys do not prevent, with actual claims in total being comparable to a single routine damage to property claim or relatively minor pollution incident. The Club's approach is to balance the needs of all of its Members while recognising that the wider membership is funding a programme that has a reduced benefit but increased cost.

Therefore, given the need for a balanced approach to Club-funded precautionary surveys, the conclusion is that there is no longer merit in the Club recommending and fully funding precautionary loading and discharge surveys for steel cargoes.

The Managers appreciate that some Members will nevertheless wish to continue with these precautionary surveys.

To balance that wish against the cost to the wider membership, from 20 February 2015:

(a) The Club's contribution to precautionary load steel cargo surveys will be limited to 50% with Members paying the balance. This will remain a precautionary survey programme only for the benefit of owned entries. Members' usual combined deductible will not be applied to the Club's 50% contribution.

(b) The Club will no longer contribute to the cost of precautionary steel cargo discharge surveys. However, the Club remains committed to supporting Members in the event actual cargo damage is found. Surveyors will then be instructed to carry out specific damage surveys, the costs of which will be borne by the Club, subject to Members' relevant deductibles.

Future action

Members are strongly encouraged to ensure that the condition of steel loaded is accurately described in the mates' receipts and, in cases where the Retla clause does not apply, also in the bills of lading.

The Managers will continue to monitor the level and causes of steel cargo claims. Particular attention will be given to claims arising from improper stowage and/or lashing, to determine what further lessons can be learned and if additional loss prevention measures are needed.

Finally, the Managers will continue to monitor steel cargo claims arising from defective hatch covers, engaging with Members to reduce repetition of these claims.