



The Risk of Large Losses for Global Container Trade: 2021-2022

An Overview of Potential Risks to Vessels & Cargo | Marine Loss Control Engineering
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Rough seas played only a part in the loss of nearly 4000 containers in 2020 and the first few months of 2021 combined. This is more than double normal losses expected.¹ For the upcoming winter season and 2022 container trading year, the typical risk associated with high winds and choppy seas is now augmented and amplified by the unprecedented supply chain situation.

This bulletin provides background and reasons you should be concerned about a potential container loss, and actions you can take to help protect your interests.

Recent Loss History

2020 and 2021 have experienced some of the largest container ship losses on record. At an average of \$50,000 per box, the One Apus accident in 2020 was estimated to have lost \$90 million in cargo alone, the highest in recent history, according to Jai Sharma, a partner at maritime law firm Clyde & Co. in London. Losses so far in 2021 have totaled an estimated \$54.5 million, Bloomberg data show.²

- Mv **MAERSK EINDHOVEN** lost 260 containers on 17 February 2021 while trading from the Far East in the Pacific Ocean en route to the USA west coast
- Mv **MAERSK ESSEN** lost 750 containers on 16 January 2021 while trading from the Far East in the Pacific Ocean en route to the USA west coast
- Mv **ONE APUS** lost 1,800 containers on 1 December 2020 while trading from the Far East in the Pacific Ocean en route to the USA west coast
- Mv **EVER GIVEN** blocked the Suez Canal on 23 March 2021 and choked the Far East Europe trade for a week holding up billions in global trade each day

This is not to mention the number of damaged containers that remained on board in the collapsed stacks, the vessel voyage diversion, salvage of deck and uninsured consequential losses such as arrival of goods past the viable window for sales, e.g., event & festivity sales, or fashion season.



Current Circumstances

There are several reasons why you should be concerned in *addition* to the usual winter season challenges.

1. Spot rate spikes and newly signed contracts signal that this is not just a blip.^{3,4}
2. Ports are congested, with no relief in sight, and global choke points remain a risk
3. Ships are at full capacity – carriers and even retailers are using different means of getting cargo to its destination, e.g., chartering their own ship

Container Spot Prices, Ports Congested

Spot prices in the global container trade have been increasing over the last year and it appears that the curve is still going up according many sources including [Reuters](#). A 20-foot container could be shipped at a price of USD 1,500 to 2,000 one to two years ago. The price is currently in the range of USD 17,000 to 20,000 from China to the United States with no indication of a decrease in the near future.⁵

With an unsatiated consumer demand, congestion at primary and secondary ports, unprecedented [shortage of truckers and strained infrastructure](#),⁶ it's anticipated that the trade will remain as it is. Container vessels will keep trading fully laden on all the main international trading routes, including the Northern Pacific Route. The Northern Sea Route – a route with higher risks from the ice, environment and limited services – is also a potential during warmer months as demonstrated just this past October by the Aragonborg.

Trading Agreements

With the shortage of tonnage, clients are facing the simple fact that container carriers decline to take their shipment without providing suitable reasons. Probable causes? Another customer is paying more, or the vessel is already fully booked. This is problematic for companies with trading agreements that require on-time, damage-free delivery and high contractual financial consequences should these commitments be missed.⁷

In response, shippers and companies alike are getting creative with their alternative solutions, each posing different costs and risks to consider from an insurance point of view.

- Major retailers have chartered vessel(s) for their exclusive use and are shifting arrival ports
- Shippers and logistics service providers that have typically used a third party 100% have started operating their own (temporary) ship or fleet of ships
- Tonnage and space is sourced on bulk cargo vessels that are *not designed for carrying containers* or the *container stacking limit is exceeded*⁸

Global Ocean Choke Points

Large container vessels like the EVER GIVEN remain trading through the Suez Canal. In total, approximately 50 vessels pass through the Suez Canal on daily basis according to the [Suez Canal authorities](#). Hence, a similar incident due to a navigational or technical error on board any such vessel remains, in our opinion, a risk for the future. Without twin channels or a single channel wide enough to remain open in case of such event, similar choking of global trade can recur.

The Panama Canal, Strait of Malacca, Dover Strait, Strait of Hormuz, important connections between the Far East and Europe could also be blocked for various reasons – and not only like an incident with the EVER GIVEN but also due to piracy, war and/or terrorism.



Considerations

Planning now for the upcoming winter months can help to reduce risk.

Financial Impact

Financial loss can be extensive from winter weather, especially from the container stack failures mentioned earlier:

- Containers and cargo lost overboard
- Damaged containers and damaged cargo that remain on board in the collapsed container stacks
- Environmental clean-up costs of polluted ocean, shores, and beaches
- An increase in extra expenses/costs as vessels are being re-routed
- Salvage costs of collapsed stacks on board
- Repair of damaged structural parts of vessel involved

General Average

“General Average is a principle of maritime law whereby all stakeholders in a sea venture proportionately share any losses resulting from a voluntary sacrifice of part of the ship or cargo to save the whole in an emergency.”⁹

According to Van Traa, a law practice specializing in the field of International Trade, Transport & Logistics and Insurance in the Netherlands, recent examples have included situations concerning:

- Extinguishing fires aboard vessels
- Beaching or stranding of vessel that require re-floating
- Vessels with engine problems¹⁰

In the case of the EVER GIVEN, the owner of the ship declared general average following the work to re-float the ship in the Suez Canal in March and reached an agreement with the Suez Canal Authority on July 7, 2021. The terms of the deal, which came after more than three months of legal wrangling, were not disclosed by either side. However, the money, according to canal authorities, would cover the salvage operation, costs of stalled canal traffic, and lost transit fees for the week the EVER GIVEN had blocked the canal.¹¹

According to Clyde & Co., a law firm representing insurers of over \$125m of cargo onboard the EVER GIVEN, as well as some uninsured cargo, cargo owners will have to pay a general average bond (a percentage of the value of their goods). The "cash deposit" for the GA claim has been set at 25% of cargo values.¹²

Preparing for the Winter Season on the Northern Hemisphere, Action You can Take Today

The incidents cited plus the expectancy that price levels, port congestion and extreme weather conditions are likely to remain the same or worsen over the upcoming winter season, point to an increasing risk for large losses in the Northern Pacific.

For our stakeholders, preparing can be imperative in managing risk.

Routing System | Ask for details about the weather routing system being used. Does it include the following?

- *Voyage planning*
- *The use of modern technology for weather & wave data actuals and historic statistics*
- *Shore based professional weather routing support to master and officers*
- *The ability to increase safety for the vessel and cargo by forecasting and monitoring the motion behavior of the vessel*
- *Real-time onboard route optimization to help in safeguarding the cargo.*



Container Stacking Heights | While you may have little control over whether the vessel owner will stack the containers in an arrangement beyond the design stability parameters of the vessel, talking about a few key topics can raise awareness and help you to ascertain risk.

- Again, a proactive and effective weather routing of the vessel can go a long way to preventing incidents
- A proactive maintenance plan, checking for damage or deterioration of the lashing and securing gear before the winter months can help to ensure the integrity of the gear that keeps the containers in place
- Consider asking about the protocol to keep damaged, leaking and overweight containers from getting on board – these containers can be weak points in the stacking arrangement

Talk with your insurance carrier about changes to shipment methods and routes.

About AIG's MLCE

AIG's Marine Loss Control Engineering (MLCE) is a multi-faceted risk engineering team operating worldwide, analyzing exposures and loss histories, and then making the appropriate recommendations to minimize risk. With an average 25 years of maritime industry experience, most are licensed master mariners and vessel chief engineers with complementary experience as adjusters and surveyors.

For more information, contact your local AIG Marine Loss Control Engineering (MLCE) representative.

Sources:

¹ "Latest threat in global supply chain nightmares is storm season at sea, Economy News & Top Stories - The Straits Times"

<https://www.straitstimes.com/business/economy/latest-threat-in-supply-chain-nightmares-is-storm-season-at-sea>, accessed November 11, 2021

² "Shipping Containers Plunge Overboard as Supply Race Raises Risks - Bloomberg" <https://www.bloomberg.com/news/articles/2021-04-26/shipping-containers-plunge-overboard-as-supply-race-raises-risks> accessed November 11, 2021

³ [Book Your Cargo Drayage Spot Market Index Indicates Spikes in \(globenewswire.com\)](https://www.globenewswire.com/news-release/2021/11/09/2330622/0/en/BookYourCargo-Drayage-Spot-Market-Index-Indicates-Spikes-in-Rates-on-the-West-Coast.html#:~:text=The%20Drayage%20Spot%20Market%20Index%20functions%20as%20an,rates%20will%20continue%20to%20rise%20into%20this%20winter), <https://www.globenewswire.com/news-release/2021/11/09/2330622/0/en/BookYourCargo-Drayage-Spot-Market-Index-Indicates-Spikes-in-Rates-on-the-West-Coast.html#:~:text=The%20Drayage%20Spot%20Market%20Index%20functions%20as%20an,rates%20will%20continue%20to%20rise%20into%20this%20winter>, accessed November 19, 2021

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⁵ [China-U.S. container shipping rates sail past \\$20,000 to record | Reuters](https://www.reuters.com/business/china-us-container-shipping-rates-sail-past-20000-record-2021-08-05/), <https://www.reuters.com/business/china-us-container-shipping-rates-sail-past-20000-record-2021-08-05/> accessed November 19, 2021

⁶ [Packed ports and empty shelves: Inside the issues behind the U.S. supply chain crisis - CBS News](https://www.cbsnews.com/news/packed-ports-and-empty-shelves-inside-the-issues-behind-the-u-s-supply-chain-crisis/), 60 Minutes, Accessed November 18, 2021

⁷ [Punctuality in The Supply Chain \(bringg.com\)](https://www.bringg.com/news/punctuality-in-the-supply-chain) accessed November 21 2021

⁸ BIFA Container Market Overview, accessed 30 June 2021.

⁹ Wikipedia, https://en.wikipedia.org/wiki/General_average,

¹⁰ "General Average - Transport & Logistics | Van Traa Advocaten", Jolien Kruit and Vincent Pool, Lawyers, Partners at Van Traa, <https://www.vantraa.nl/en/expertise/our-expertise/transport-logistics/general-average/> accessed November 15, 2021

¹¹ Suez Canal releases the Ever Given hulking vessel after settlement deal (cnbc.com), <https://www.cnbc.com/2021/07/07/suez-canal-releases-the-ever-given-hulking-vessel-after-settlement-deal.html>, accessed November 15, 2021

¹² Casualty Update: "EVER GIVEN" : Clyde & Co (clydeco.com), <https://www.clydeco.com/en/insights/2021/03/casualty-update-ever-given>, updated July, 2021, accessed November 22, 2021.

¹³ [Wagenborg delivers cascos to Rotterdam | Project Cargo Journal](https://www.projectcargojournal.com/shipping/2021/10/25/wagenborg-delivers-cascos-to-rotterdam/?utm_source=newsletter&utm_medium=email&utm_campaign=Newsletter%20week%202021-43&gdpr=deny) https://www.projectcargojournal.com/shipping/2021/10/25/wagenborg-delivers-cascos-to-rotterdam/?utm_source=newsletter&utm_medium=email&utm_campaign=Newsletter%20week%202021-43&gdpr=deny, accessed October 26, 2021



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