

## AN ALTERNATIVE ASSESSMENT OF THE *EVER GIVEN* LOSS

Alas, insurance will not cover the bulk of the world's trade losses. The understanding that "everything is insured" is deeply wrong.

It is rather strange, a week after the incident, that there are very few estimates on the internet of the size of the INSURANCE LOSS.

Insurers refer to the Rating agency Fitch for the loss estimates, or to Morgan Stanley. I have not yet seen an article from an insurance company or broker about the size of the losses they expect to result. So, let me try to analyse the incident based on the potential on the parties involved.

(1) Consumers, i.e. cargo interests, traders and buyers.

Basically, the parties which suffered from a six-day long blockage of the Suez Canal. They may have the following covers:

(a) Cargo insurance.

(i) Classic cargo insurance, say, under the standard Institute Cargo Clauses, provides cover only against physical loss or damage to cargoes. But it excludes any losses caused by the delay.

(ii) Perishable cargoes, say, frozen / chilled food and livestock. We were told that refrigerating machinery was operating during all those six days on *Ever Given* and the numerous blocked vessels. Hence, very little chance of insurance claims.

(b) Cargo DSU (Delay in start-up, or ALOP - Advance loss of profits – cargo).

This type of insurance is intended for projects where the time element is critical. However, these policies normally have a time deductible of at least two weeks. Six days of blockage would most probably not trigger their activation.

(c) Loss of profit / income from late delivery of goods. Or, "Supply chain interruption insurance". This is a very rare product, still in its infancy.

I would provisionally put all cargo insurance losses at USD 10 million, although that may be slightly on the low side. The problem is, we are very unlikely to find out the total amount of this element of the loss.

(2) General Average / Salvors' Remuneration.

This will probably be the largest element of the insured loss which will take years to settle. We have here a Classical General Average (GA) situation, when efforts and expenses are intentionally incurred for the salvage of all sides of a "maritime adventure", i.e. the ship, cargoes and freight interests.

In the *Ever Given* case, the GA may consist of the re-floating costs together with the Salvors' remuneration. It also could include the cost of any cargoes, say, jettisoned to make the vessel lighter, but no such steps were taken.

The vessel was re-floated following a joint effort of the Suez Canal Authority and the Dutch companies Boskalis and SMIT Salvage, with a participation of Japanese specialists. They used dredgers, first, to remove sand from around the bow area of

the ship. Then two powerful tugs arrived, the Dutch *Alp Guard* and the Italian *Carlo Magna*, which successfully pulled the vessel from its sand “pillow”.

We estimate the GA element of the loss at around USD 100 million, according to our calculations below.

(3) Loss of revenue by the Suez Canal Administration (SCA).

A possible amount? Six days delay, say, USD 15 million per day – a 90 million US dollar loss. How will it be settled?

(a) The Canal may have its own Loss of Revenue policy. But, knowing the present-day status of this segment of the market, it is highly unlikely. It is also possible that the Risk Managers of the Authority decided to self-insure this risk.

(b) The Canal will raise a claim against the Shipowner, Evergreen, and their P&I Insurers. P&I, or Shipowners Liability Insurance, provides cover against Third party claims upon shipowners / cargo carriers. Evergreen is said to be insured in one of the largest P&I Clubs in the world, the UK P&I Club.

Well, the Club will no doubt contest the claim: the Ship is not to blame, it was a gust of wind! Or, caused by reduced visibility. Much will be spent on lawyers, and the Club may finally pay something like USD 50 million.

(4) Damage to the Canal's bank.

Reconstruction will cost something between one to two million dollars. The small excavator which we saw in the news coverage will do it in three days. This amount will also be claimed against the Shipowner / the UK P&I Club.

(5) Damage to the vessel herself is minimal.

Most probably, she will have to go to a drydock to for inspection of her underside. With her size, it is likely to cost one or two million dollars. This element will be paid by the Hull insurers of the ship, a Japanese Insurance company. Only the inspection costs and the repairs to the ship will be recoverable. Any reduction in the ship's hypothetical future market value will not be covered.

(6) Damage to the environment?

We understand there was none, although the Salvors may try to get away with some USD 500,000 as a compensation of their efforts to prevent water pollution by bunkers. This will be paid by the P&I Club.

(7) Loss of freight / hire / income by shipowners of the delayed vessels.

(a) The Loss of Hire Insurances usually do not cover such situations, only providing protection for economic losses following physical loss or damage to vessels. In any case, they contain a time deductible of a week or two. So, not an insurance claim.

(b) A Blocking and Trapping Addendum is sometimes seen in some policies, but it usually does not cover similar situations.

This seems to take into account the types of insurances touched by the accident. Now, for the General Average calculations.

The Salvors usually charge (a) for urgency, (b) more or less as a percentage of the rescued property.

We need to estimate the total value of containers carried on the *EVER GIVEN*. An average value per box may well be around USD 50,000, which for 20,000 containers gives us a stunning amount of USD 1 bn. Hence, this may vary between USD 500million and 1.5 billion.

Clyde, the shipping and trade lawyers, estimates the hull value of the vessel at USD 110 million.

This gives us the General Average fund of, say, USD 1,100 million, or USD 1.1 billion.

The Salvors, i.e. SCA and Boskalis / SMIT, are likely to request anything between 5% and 15 % of the saved property (of the fund). This gives us a General Average loss of some USD 55 million. to USD 165 million. I would estimate the final settlement amount at USD 100 million, of which some 10 % will account for lawyers' fees.

The beauty of the General Average settlements is that they are paid proportionally to the saved values. On the other hand, it means that the calculations and payments by thousands of cargo receivers and their cargo insurers will take years to be settled, even if the loss is not be disputed.

On the technical side, the Hull insurers of the container ship will pay or guarantee the salvage costs. Containers at the ports of destination will be arrested until the receipt of guarantees / GA bonds from cargo insurers. Some consignees who did not have insurance might never receive their goods.

The Cargo Owners have the possibility of alleging that the vessel was unseaworthy at the moment of the accident. Such an assumption gets the P&I Club involved as the Club provides cover for such situations. However, we do not think that this will be the case.

Having said this, the English Supreme Court is still sorting out the case of a 2011 GAsacrifice on another container vessel, *CMA CGM LIBRA*, a new ship whose unseaworthiness was assumed as she did not have updated charts...

In summary! In spite of all the hype, the insured losses may amount to:

- The General Average – say, USD 100 million,
- The claims of the Canal Administration (SCA) - well, another USD 90 million
- Damage to perishable goods (not always insured) - another USD 10 million.

Overall, anything between USD 200 million and USD 250 million, distributed among cargo insurers, P&I and, possibly, the SCA insurers.

Do you know why not too many experts are providing estimates? The final amount might be known in 2 to 4 years. Meanwhile the legal profession will be maintained in the style to which it has become accustomed. Unlike Insurance commentators such as the writer, who will merely dine well on their opinions, with minor royalty, spellbound socialites, opinion formers and social media trenders hanging on their every word. If only.

Taken in perspective, very little of from the "daily loss of the world trade of \$ 9 billion" will be insured. Well, this is how insurance works, nowadays.

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