

Technical Update:

Impact of Middle East crisis on marine claims

The conflict in the Middle East is disrupting shipping across the region, including in the Strait of Hormuz, one of the world's busiest maritime routes. Maritime traffic through the Strait, the narrow channel linking the Persian Gulf with the Gulf of Oman, has effectively been closed since strikes on Iran began. This is and will further impact overall global shipping and trade.

Occasionally, a vessel might transit the Strait but at great risk. Most recently a Greek vessel was successful in the transit but had its Automatic Identification System (AIS) turned off.

It is estimated that approximately 20% of the global oil (and gas) supply passes through the Strait of Hormuz. The de facto blockade has already impacted the oil supply resulting in surging oil prices with Brent crude oil rising over the US\$100 per barrel mark.

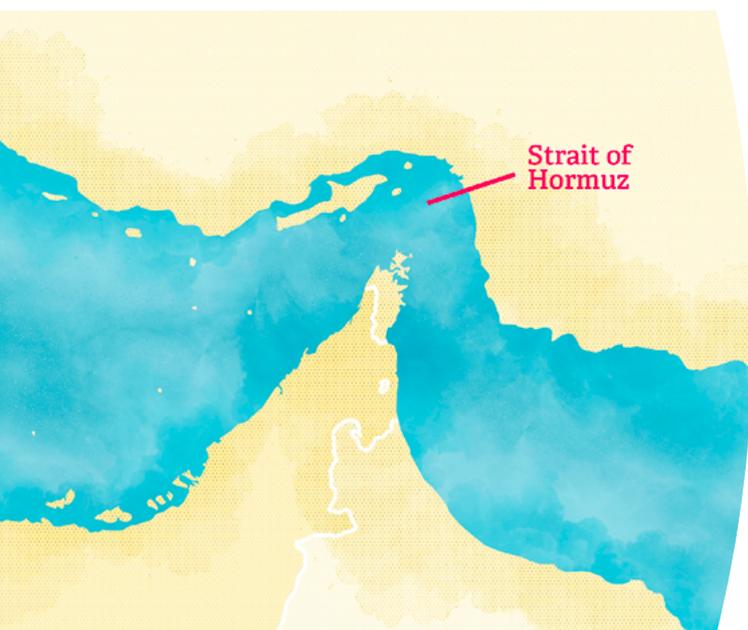
Major P&I clubs and marine insurers already issued 72-hour cancellation notices for war risk cover in the Arabian Gulf, Gulf of Oman, and Iranian waters and have gone to a voyage-by-voyage cover base which subsequently has led to significant increase in insurance premiums. Subsequently, cargo-war insurance covers are increasing as well.

The situation could result in scenarios where vessel damages might be claimed as constructive total loss (CTL). This could be the extent of physical damage and / or wear and tear or potentially due to longer periods of vessels being stuck. These potential scenarios would follow incidents similar to the Iran / Iraq affair when the Shat Al Arab was blocked causing vessels to remain there for an extended period.

With parts of the Middle East being significant exporters of oil and gas, refined petroleum products, fertilisers and other key raw materials, shipowners and cargo shippers/receivers involved in those trades are likely to be heavily affected. Some shipowners will have purchased loss of hire insurance, but these generally require a recoverable hull insurance claim before they are triggered.

There are likely to be numerous shipments awaiting export from affected Middle Eastern ports that cannot be moved physically or legally due to conflict-related disruption, sanctions, port closures, or security risks (war risks). There are estimated to be in excess of 140,000 containers in addition to the bulk shipments of oil products. This may result in delay, spoilage, pilferage and rejection issues.

For example, the UK media is reporting that a shortage of certain pharmaceutical products, including painkillers and blood pressure medication may be a consequence of the conflict. Several carriers are reported to be terminating voyages due to the uncertainty, resulting in higher costs being passed





on to cargo owners, or them having to find alternative methods of transport. It is questionable as to whether any additional transit costs could be recovered under the cargo policies of insurance, as where a war exclusion exists (a relatively standard exclusion), it will be difficult to argue that the cost arose as a result of anything covered under the policy.

While some large commodity trading firms purchase trade disruption insurance for their cargo, individual policy wordings will determine the extent of cover for any losses arising from the current Middle East situation.

Another scenario which might arise is ship repair after an attack. The Gulf has good but limited repair facilities and the supply of steel could be an issue.

As per the previous Gulf war salvage operations of vessels in the gulf will still go ahead under the attached policies. These salvage operations will be sensitive with regards to oil egress, ingress of water as well as container and stability, in addition to STS operations.

Alternative routes via the Cape of Good Hope increase voyage times by 15 to 20 plus days and add to the potential of further consequential business interruption claims, e.g., due to supply-chain disruptions. This in turn could lead to port congestion and container shortages. We are already starting to see a significant increase in freight charges.

There has been a suggestion that a land bridge, connecting Gulf side cargo to Red Sea gateways via inland trucking in Saudi Arabia may be an option, but this may bring its own challenges in terms of congestion at key gateways and a shortage of vehicles as demand increases. Further, the Houthis look to be taking advantage of the potential increase in traffic around Bab Al Mandab, so more attacks may follow.

In the event of an incident involving a vessel, its cargo or static stock arising from the hostilities and/or the sanctions all of the above must be considered along with the actual policy wording, location of the cargo, the voyage and the nationalities/firms being the parties to the maritime adventure – essentially the nexus of the marine risk.

And of course, we must not forget the mariners who are at risk. The most important part of all in this is the safety of all crews and people directly involved and impacted.

It needs to be closely monitored how the situation develops and existing policy wordings should be carefully assessed to avoid any potential unforeseen coverage gaps.

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