



PRESS RELEASE / 7th June 2010

THE CANNES DEBATE ON MARINE AND AVIATION INSURANCE

Rendez-vous to be an annual fixture

Close to 400 insurance and maritime industry professionals from 35 countries debated a wide range of topical issues at the second Rendez-vous de Cannes held recently on the French Riviera, organised by CESAM, which represents the French maritime and transport insurance services.

Piracy, the impact of a cyclical market on freight rates, new sea routes, the French market's new hull insurance policy, and air cargo were high on the agenda.

The success of the two conferences to date (390 delegates this year, against 374 in 2009) has underlined the organisers' intention to make it an annual spring fixture in the international marine insurance calendar.

Opening the Rendez-vous, Patrick Le Cerf, chairman of CESAM, said the higher number of delegates was proof that the event was moving in the right direction, and he also noted it was generating growing aviation interest.

Keynote speaker Philippe Chalmin, Professor of International Affairs at Paris Dauphine University, spoke about the current state of world trade which, he said, would remain volatile and uncertain. It was at present largely influenced by China, the world's second biggest economy, running on a 15% growth path. China continued to import huge quantities of iron ore and copper, as well as rubber, and this insatiable appetite would continue to drive shipping markets. On the situation in Greece, he said it was like opening Pandora's Box.

Piracy Responses

On piracy, the conference organisers took a new approach by inviting a speaker who is at the sharp end in defending merchant ships. Commander Rune Bratland from the Royal Norwegian Navy/EU NAVFOR Operation, said that Somali pirates were now attacking ships some 1,200 nautical miles to the east of the Horn of Africa. At mid-April this year, 16 vessels were under pirate control with 343 hostages.

On protective measures which vessels could take, he cited wire, hoses, water curtain, foam/dye marker, sound devices, lighting, smoke/steam and lookouts. Referring to armed response, he said that EU NAVFOR warned that the use of active measures might escalate pirate violence.

Insurance was a key influential factor, he said, but asked if insurance could be an incentive for companies implementing best management practice?

Dieter Berg from Munich Re said there was little case law about the legality of ransom payments and General Average declaration. K&R insurance covered ransom monies for the insured crew, paying a loss prevention consultancy, and delivering services after a kidnapping. Loss of hire covered loss of income or obligation to pay charter hire without a physical trigger if the vessel is held by pirates.

A legal view came from Rhys Clift, a partner in UK law firm Hill Dickinson, who said that the huge co-operative naval venture underway off Somalia had so far had little success with prosecutions and convictions, while "catch and release" was causing increasing frustration. The use of (lethal) military force risked enflaming the situation, and the use of arms, especially armed guards, might lead to insurance coverage difficulties.

P&I cover did not exclude armed guards, he said, but most club rules excluded losses arising out of or consequent upon "*performing any voyage or being employed in any trade which in the opinion of the directors is imprudent, unsafe, unduly hazardous or improper.*" Would this exclusion cover the carriage of arms, he questioned?

Captain John David, who spent 25 years at sea, five as master, and now an independent consultant, experienced his first pirate attack 17 years ago. He said there were between 2,000 and 3,000 pirates in Somalia, where 50% of the population was under 18 years of age. Despite the presence of 35 warships from 20 navies, violence was escalating and would continue to do so, he predicted.

Adding a postscript, Patrick de La Morinerie, deputy chief executive of AXA Corporate Solutions, said that ransom payments had moved beyond an average of \$3m. to \$5m.

Freight Rates – Managing the Cycle

Discussing freight rate trends, Francis Baudu from Barry Rogliano Salles in Paris, identified 13 factors which contribute to rate variations. On containership timecharter rates, he showed that for the bigger ships (4,000-plus teu) the daily rate was \$25,000 in January 2000; it then fell to \$10,000 by early 2002, before rising steadily to a peak of nearly \$45,000 mid-2005, dropping to around \$34,000 in 2008 – then falling dramatically to only \$6/7,000 in late 2009.

Antoine Person, company secretary at Louis Dreyfus, described dry bulk as a specific market. How to manage in cyclical conditions? He said the shipowner had a choice of action: the spot market, long-term cover such as timecharter, and forward freight agreements. Experience of past cycles meant that operators should be looking for a reasonable return, and avoid what he called the "domino collapse" – ie, respect your signature.

Strong Increase in Air Freight

Air cargo was the essential engine of today's global economy and airline business, argued Frederic Leger, head of cargo business process and standards at the International Air Transport Association, the industry's trade association. He said cargo traffic comprised general goods and special cargo (ie, perishables). Although 30% of the worldwide value of cargo was represented by air freight, it was only 3% in volume. Speed and on-time delivery were its competitive advantages.

Perhaps reflecting the shipping slump, international air freight volumes had risen strongly in 2009 and into 2010, and load factors were back to record highs.

Mr Leger said that Iceland's volcanic ash disruption had lost the airlines \$1.7 billion in revenues over six days in the early stages, the greatest impact being on European carriers. Looking ahead, the price of jet kerosene fuel and environmental policies would add to airline costs.

IATA cargo supported the whole industry, he concluded, from shippers to freight forwarders at origin, handlers at origin, carriers, handlers at destination, freight forwarders at destination, and consignees. There will be an IATA World Cargo Symposium in Istanbul in March 2011.

New French Hull Policy

Delegates in Cannes had the first opportunity to examine and discuss the French market's long-awaited new hull insurance policy. It was introduced to delegates by Denis Develey, chief hull underwriter at AXA Corporate Solutions in Paris, and one of the main architects of the policy, and Henry Allard (Filhet-Allard Maritime) and Fernand Bozzoni (SOCATRA). This was the end result of three years' detailed consultation with organisations representing marine underwriters, brokers, shipowners and adjusters as well as legal advisers. The new hull forms are available for use from July 1, 2010, and have been set up by the French Federation of Insurance Companies (Fédération Française des Sociétés d'Assurance) with the co-operation of brokers (Union des Courtiers d'Assurances) and shipowners (Armateurs de France).

This is a ground-breaking package policy that covers four areas: all risks hull and machinery; war, piracy, terrorism and similar risks; loss of income; and optional additional clauses which may be agreed between insurer and assured.

Mr Develey said it represented a full revamp of French hull insurance terms. "They have some features which can be found in other clauses but also some innovations which we think will give the policy added value," he said.

When the conference heard news on new sea routes, plans for the expanded Panama Canal were outlined by Henry Faarup, the Panamanian Ambassador to France and Switzerland. He said that the new, enlarged locks would handle boxships of 12,600 teu, compared with the capacity of 4,000 teu in the current locks. Also, they would use 7% less water. In total, the expansion programme would cost US\$5,250m. **-ends-**

NOTE

Most of the presentations and graphics are available on www.cesam.org

CESAM is the Comité d'Études et de Services des Assureurs Maritimes et Transports.

ISSUED BY:

Denzil Stuart Associates

67 George Row, London SE16 4UH

Tel. +44 (0)20 7231 9963 / Fax +44 (0)20 7232 1738 / Email: ds@dsa-pr.com

BOW WAVE Online
20 June 2010

4. French Insurance Fears

The current edition of the Global Broker and Underwriter, edited by John Guy contains this rather good report:-

All eyes were on Cannes last week but there were no film streets in sight as 400 insurance and maritime industry professionals from 35 countries debated a wide range of topical issues at the second Rendez-vous de Cannes organised by CESAM, which represents the French maritime and transport insurance services. Piracy, the impact of a cyclical market on freight rates, new sea routes, the French market's new hull insurance policy, and air cargo were high on the agenda. Keynote speaker Philippe Chalmin, Professor of International Affairs at Paris Dauphine University, spoke about the current state of world trade which, he said, would remain volatile and uncertain. It was at present largely influenced by China, the world's second biggest economy, running on a 15% growth path. China continued to import huge quantities of iron ore and copper, as well as rubber, and this insatiable appetite would continue to drive shipping markets. On the situation in Greece, he said it was "like opening Pandora's Box". Piracy continues to dominate the maritime thinking with Commander Rune Bratland from the Royal Norwegian Navy/EU NAVFOR Operation, telling delegates that Somali pirates were now attacking ships some 1,200 nautical miles to the east of the Horn of Africa. At mid-April this year, 16 vessels were under pirate control with 343 hostages.

On protective measures which vessels could take, he cited wire, hoses, water curtain, foam/dye marker, sound devices, lighting, smoke/steam and lookouts. Referring to armed response, he said that EU NAVFOR warned that the use of active measures might escalate pirate violence. Insurance was a key influential factor, he said, but questioned if insurance could be an incentive for companies implementing best management practice? Dieter Berg from Munich Re said there was little case law about the legality of ransom payments and General Average declaration. K&R insurance covered ransom monies for the insured crew, paying a loss prevention consultancy, and delivering services after a kidnapping. Loss of hire covered loss of income or obligation to pay charter hire without a physical trigger if the vessel is held by pirates. Rhys Clift, a partner in UK law firm Hill Dickinson, said that the huge co-operative naval venture underway off Somalia had so far had little

BOW WAVE Online
20 June 2010..... /2

success with prosecutions and convictions, while "catch and release" was causing increasing frustration. The use of (lethal) military force risked enflaming the situation, and the use of arms, especially armed guards, might lead to insurance coverage difficulties. P&I cover did not exclude armed guards, he said, but most club rules excluded losses arising out of or consequent upon "performing any voyage or being employed in any trade which in the opinion of the directors is imprudent, unsafe, unduly hazardous or improper." Would this exclusion cover the carriage of arms, he questioned? Captain John David, who spent 25 years at sea, five as master, and now an independent consultant, experienced his first pirate attack 17 years ago. He said there were between 2,000 and 3,000 pirates in Somalia, where 50% of the population was under 18 years of age. Despite the presence of 35 warships from 20 navies, violence was escalating and would continue to do so, he predicted. Adding a postscript, Patrick de La Morinerie, Deputy Chief Executive of AXA Corporate Solutions, said that ransom payments had moved beyond an average of \$3 million to \$5 million.

GLOBAL BROKER Online – Issue 105, 11th June 2010
'A WEEK IN THE MARKET'

Cannes hears French insurance fears

All eyes were on Cannes last week but there were no film streets in sight as 400 insurance and maritime industry professionals from 35 countries debated a wide range of topical issues at the second Rendez-vous de Cannes organised by CESAM, which represents the French maritime and transport insurance services. Piracy, the impact of a cyclical market on freight rates, new sea routes, the French market's new hull insurance policy, and air cargo were high on the agenda. Keynote speaker Philippe Chalmin, Professor of International Affairs at Paris Dauphine University, spoke about the current state of world trade which, he said, would remain volatile and uncertain. It was at present largely influenced by China, the world's second biggest economy, running on a 15% growth path. China continued to import huge quantities of iron ore and copper, as well as rubber, and this insatiable appetite would continue to drive shipping markets. On the situation in Greece, he said it was "like opening Pandora's Box". Piracy continues to dominate the maritime thinking with Commander Rune Bratland from the Royal Norwegian Navy/EU NAVFOR Operation, telling delegates that Somali pirates were now attacking ships some 1,200 nautical miles to the east of the Horn of Africa. At mid-April this year, 16 vessels were under pirate control with 343 hostages.

On protective measures which vessels could take, he cited wire, hoses, water curtain, foam/dye marker, sound devices, lighting, smoke/steam and lookouts. Referring to armed response, he said that EU NAVFOR warned that the use of active measures might escalate pirate violence. Insurance was a key influential factor, he said, but questioned if insurance could be an incentive for companies implementing best management practice? Dieter Berg from Munich Re said there was little case law about the legality of ransom payments and General Average declaration. K&R insurance covered ransom monies for the insured crew, paying a loss prevention consultancy, and delivering services after a kidnapping. Loss of hire covered loss of income or obligation to pay charter hire without a physical trigger if the vessel is held by pirates. Rhys Clift, a partner in UK law firm Hill Dickinson, said that the huge co-operative naval venture underway off Somalia had so far had little success with prosecutions and convictions, while "catch and release" was causing increasing frustration. The use of (lethal) military force risked enflaming the situation, and the use of arms, especially armed guards, might lead to insurance coverage difficulties. P&I cover did not exclude armed guards, he said, but most club rules excluded losses arising out of or consequent upon "performing any voyage or being employed in any trade which in the opinion of the directors is imprudent, unsafe, unduly hazardous or improper." Would this exclusion cover the carriage of arms, he questioned? Captain John David, who spent 25 years at sea, five as master, and now an independent consultant, experienced his first pirate attack 17 years ago. He said there were between 2,000 and 3,000 pirates in Somalia, where 50% of the population was under 18 years of age. Despite the presence of 35 warships from 20 navies, violence was escalating and would continue to do so, he predicted. Adding a postscript, Patrick de La Morinerie, Deputy Chief Executive of AXA Corporate Solutions, said that ransom payments had moved beyond an average of \$3 million to \$5 million.

WORLD CARGO NEWS
May 2010

By Denzil Stuart

Insurers welcome drop in marine casualties

Marine insurers have been welcoming early signs of a reversal in casualty experience as shipping operations continue to be impacted by the dramatic downturn in global trade volumes and freight markets.

At least, that was the news at the end of March when the International Union of Marine Insurance (IUMI) met in Hong Kong for the spring meetings of its executive and seven technical committees.

Statistics compiled and analysed by IUMI from several authoritative sources point to a continuing positive trend in total loss figures – 67 declared in 2009 with respect to ships of 500 gross tons and over, a fall of 10% compared with those declared at the same time last year for 2008.

Of course, the number of losses is certain to rise as the year progresses, but even so the March figure of 67 was the lowest ever recorded.

Mixed bag

This reduction did not extend to actual gross tonnage lost, however. The 67 ships accounted for approximately 463,000 gt, an increase of 25% on 2008 at the corresponding period last year. Nevertheless, the total is at a relatively low level compared with the 1980–2008 period.

But expressed as a percentage of the world fleet, which continued to grow in 2009, with all three main sectors, tankers, bulk carriers and containerships, now showing the largest number of vessels and deadweight carrying capacity in history, underwriters expected to see an improvement both in ship and tonnage losses, cautioned Cédric Charpentier, chairman of IUMI's facts and figures committee.

Regarding serious or partial losses, the result for 2009 was mixed and Charpentier said that was particularly disappointing as shipping activity dropped dramatically last year.

The downside for shipowners is that they face increasing economic strife and more technical operating problems. The upside for insurers is that many ships have less demanding and strenuous schedules and overworked crews are under far less pressure, particularly as many operators are adopting a slow steaming strategy.

Green shoots

On a more upbeat note, IUMI said that after an unprecedented drop in 2009, key economic indicators were back to green for cargo insurers in 2010. After world trade plunged by about 25% last year, it is expected to be up by some 10% in value this year.

According to an optimistic overview by the IMF, all economies should be back in growth mode this year and next, but at different speeds in various regions – advanced countries around 2%, emerging and developing countries in excess of 6% and the world around 4%.

Meanwhile, raw material prices have regained some lost ground this year, thanks largely to the buoyant recovery in emerging Asia, though IUMI reckons that further upward pressure will be modest.

There has been an uplift in some major freight rates as world trade started to rebound, but IUMI warns that "shipowners must control the injection of additional capacity into the market (newbuilds and ships coming out of lay-up) to avoid the re-emergence of an unbalanced market."

Encouragingly, the number of vessels scrapped in 2009 more than doubled, from 412 in 2008 to 1,000-plus, and, more importantly perhaps, the amount of deadweight tonnage scrapped also more than doubled, to reach 31.42M dwt.

Welcome news

Commenting on the statistics, Deirdre Littlefield, the US president of IUMI, said that the softer landing in casualty experience was welcome news for shipowners and charterers and for the marine underwriting community. "We must hope that the final figures for 2009, which we will release at our annual conference in September, will confirm these early trends."

There is no doubt that the improvement seen so far results from the greatly reduced number of ships in service and,

at long last, more old tonnage being scrapped. However, "the better claims experience is offset by the very severe reductions we have seen in the insured values of ships and commodities, and ships laid up, impacting on premium income," Littlefield said.

Shipping operations will slowly return to more normal levels, she added, but the huge overhang of new tonnage on order will present a growing problem. It is going to be a very challenging time for marine insurers.

Information from Clarkson Research, included in the IUMI statistics, indicated that the total value of the newbuilding orderbook worldwide at January 1 this year was a whopping US\$442B, of which containerships and multi-purpose vessels accounted for about US\$80B.

The global orderbook by vessel type at the same date showed that container-ships/multi-purpose vessels represented 23% of the total – the same figure as shown for tankers and gas carriers respectively.

Clarkson added a caveat: Going forward, the orderbook will be influenced

by delays, cancellations and the renegotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the orderbook.

Notwithstanding these reservations, industry sources estimate the current containership orderbook to be valued at US\$70B. Rumours of containership orders being cancelled or successfully delayed, and of some Asian shipbuilders "selling on" vessels under construction where owners have defaulted on stage payments, are rife, but positive confirmations are few, which is understandable.

However, some operators are seeing opportunities in the current environment. It was reported in April, for instance, that Asian giant Evergreen was preparing to cash in on low prices to order 100 new boxships.

Sitting pretty

But some owners are sitting pretty. One such is Seaspan Corporation with Gerry Wang at the helm. Seaspan's contracted fleet of 68 containerships comprises 47 ships in operation and 21 to be delivered over the next 24 months or so. During the first quarter of 2010, vessel utilisation fell to a still

WORLD CARGO NEWS
May 2010..... / 2

impressive figure of 97.2% following the grounding of the 4,250 TEU CSCL HAMBURG (built in 2001) in the Gulf of Aqaba in December.

During the quarter, Seaspan agreed the sale and leaseback of a 13,100 TEU vessel with an unnamed Chinese bank for US\$150M. The ship, being built in Korea, is one of a series chartered to Cosco Container Lines.

Wang is critical of the ship-building industry and says that yards have failed their containership customers by ignoring the opportunity to produce innovative designs that would

both lower carbon emissions and expand cargo capacity.

Seaspan, the first owner to confirm it had ordered ships of in excess of 8,000 TEU capacity wants to see more aluminium and other lightweight materials such as wood used when fitting out ships, meaning less steel. Ship prices are far too high, Wang has said.

One line receptive to his call for a revolution in ship design is Maersk, which is said to be considering a variety of new concepts for both the ships of the future and existing vessels, including new hull forms and propeller designs.

Panamax problems

Alongside this mix of news for the container industry, German classification society Germanischer Lloyd (GL) has thrown a spanner in the works by sending a message that owners of Panamax containerships will face a dilemma once the new, wider locks in the Panama Canal come into operation.

GL board chief Hermann Klein, speaking in May in London, predicted that the new locks in 2014 would herald the rapid phasing out of the current Panamax fleet. To pass through the existing locks, these vessels are built to a tall, narrow design that has been developed so they can lift as large a number of boxes as possible. This can only be

achieved by carrying large amounts of water ballast, typically about 15% of cargo capacity, to maintain their stability.

Dr Klein believes that these ships will lose their competitive edge once much larger ships can offer additional economies of scale on routes through the canal. The extra fuel consumption due to the need to carry the necessary ballast would soon convince owners that it was uneconomic to use Panamax ships on other routes.

As a side comment, when the second *Rendez-vous de Cannes*, arranged by CESAM, the French maritime and transport insurance service organisation, was held in late April, there was a presentation on the "new" Panama Canal.

Delegates heard that the wider

locks will be able to accommodate 12,600 TEU vessels, compared with the current locks' capacity of about 4,000 TEU. Also, vessels would use about 7% less water.

Speaking at the conference, Philippe Chalmin, a noted economist and professor of international affairs at the Paris-Dauphine University, said the world would remain volatile and uncertain. China now had the world's second biggest economy and was running on a 15% growth path. The world economy was growing but only in emerging countries, whereas OECD states were lagging behind.

Was China's continuing growth sustainable, he asked? No one could be sure. □