

*Stop loss bullentin n°2 - April 2017*

**Steel cargo claims at Chilean Ports**

Dear Sirs,

We would like to draw your attention of the recent increase of steel cargo claims in Chile.

In the last months, our office has noted a relative increase of this sort of incidents, especially in shipments from China to the main Chilean ports, Valparaiso and San Antonio primarily, but also in southern ports as Concepcion which receive cabotage shipments from the central ports of the country. The growth of these claims is caused - in some extend- for a higher demand of steel of Chilean Manufacturers to Chinese providers. Indeed, local steel producers are not able to compete with Chinese market as other many goods. Cold rolled steel coils is the most usual shipment in this trade.

In relation with the afore mentioned, it is also to be noted the peculiarity of the austral winter ( Beginning in June, until late September approximately ) exists a strong contrast of temperatures and moisture levels from a warm environment of south / central pacific to the cold /damp environment of the Chilean's coast. Humboldt current, which is present all over the coast of Chile, contributes to high moisture levels ( most of times over 90% ) and a low temperature, especially in the south coastal sector including channels of the Patagonian Region. This serves as a ground for condensation issues as the cargo comes into contact with hot air in an abruptly manner, even if the vessel is fitted with dehumidifiers, there is always a risk of condensation.

Therefore, we could expect these cases continues increasing during the Chilean winter season.

The peculiar coastal weather of Chile sometimes may result difficult for ventilate holds when the ship is close to the coast or during discharge operations, this circumstance must be always taken into account by the Vessel Master, in case he decides to carry out such practice.

The above said could also applies for the cabotage trades, usually done by medium-small size vessel, from north to south and vice versa, which means a important exposure to the abrupt change of atmospheric moisture and temperatures.



*Steel sticks founded with rust damages.*

Of course, this is not a new matter and it is well known in the shipping / insurance industry. Owners count with a wide number of technical guidances and loss prevention publications regarding the steel carriage. These materials provides carriers a technical, factual and legal advice as to prevent situations with the carriage of steel cargoes. Briefly, we could mention the following key points;

1. Preloading surveys at origin port:

Perhaps the main difference between the carriage of steel and most other cargoes, is the necessity to check the proper condition of the steel cargoes before loading, specifically in regards to the sufficiency of packing any sign of rust presence or even physical damage. Any rust appearing to be minor at the loading could develop during the voyage, rusting of steel is a continuous process. Then, the longer its continues, the more it will damage the cargo. Facing a scenario in which damages are found at destination, for the carrier it will be difficult to prove these damages are not a consequence of his lack of diligence and / or unseaworthiness condition of the ship (the carrier has the duty by holding proper equipments in order to maintain temperatures and relative humidity of the holds ). These inspections are basically carried out as to detect any sign of damages to cargo, and to ensure the master to sign Mate Receipt according to the truly condition of the commodity, before the ship accepts any responsibility for its carriage.

Also, it is always advisable to conduct a survey inspection to the vessel hatches as to ensure they are in sound condition and specially ensure their weathertight condition. Fully static condition of holds must be ascertained, including examination of the ventilators, sounding pipes or any other related system of the ship, mainly when the ship is expecting sailing under severe sea conditions.

2. Salinity test when moisture is detected must be conducted.

Positive presence of salinity in the cargo may arise from a salt laden environment (open stow close to sea / stow place close to onshore breeze) and of course, product of a direct contact with the sea water, in cases of any leakage from the ship's hatches.



*Coils affected by condensation.*



*Inspecting steel wires rusted.*

### 3. Documentary precautions.

During loading, Mate's receipts are issued and signed by the ship, later the carrier will issue a bill of lading based on the Mate's receipts contents. Therefore, Mate's receipts and consequently Bills of lading must reflect the real condition of the cargo at the time of loading. Remarks to be placed on Mate Receipt must describe any damages found on the cargo, on a very detailed manner and following the remarks tipped by IG P&I Clubs as much as possible.

Of course, the above practice is always ground of dispute between the parties and quite infrequent in the industry due to the pressures received by cargo interests to have the Bill of Lading "clean". However, the very best way to avoid claims arising from a pre-shipment damage is to ensure that the bill of lading is claused according to the truly condition of the goods at the time of loading. It is customary to replace the remarks on the bill of lading by letter of indemnity granted by shippers/ charterers to the shipowners as to issue clean bills of lading for their cargoes, especially when use of credit documents subjected to clean bill of ladings is on place.

The use of Letters of Indemnity against clean Bills of lading could jeopardize defense of the ship when innocent third parties are involved on the matter, leaving aside potential issues with the P&I coverage, in some cases.

In general terms and given the value of steel cargoes, parties must give high consideration to the foreseeable risks of the carriage of steel, and by the time of drafting the documents and contracts, owners have to ensure they are not exposed to claims for improper handling of cargo, unseawortiness of the ship to carry steel, and damages for condensation. For instance, when the vessel is not fitted with dehumidifiers, owners must rule in their contract that the ship will be only responsible for condensation damages in case of improper or insufficient ventilation. Coming back to the condensation issues, in many cases is almost impossible to avoid condensation regardless the ship had took the proper usual practices.



*Coils at storehouse with severe rust damage.*

In regards to the Chilean regulations in this respect, it is left only to be said that the Chilean commerce code nearly duplicates the Hamburg rules for damages to the cargo, including steel cargoes. Therefore, the carrier will hold the burden of proof in case damages are found at disport.



Indeed, as per Chilean regulations the owner has to prove he took the proper measures in order to keep protected the cargo under his custody ( e.g. duly ventilation during the sea voyage ). Moreover, we could also point out that any liability clauses or mechanisms like LOI's have not effect under Chilean regulations (Commerce Code), then the carrier would not be entitled to enforce them before the local courts.

In the view of the said, the best protection against claims in steel carriages is to take the proper precautions before loading, both factual ( by preloading / holds survey ) and documentary.

Trusting the this is helpful, we remain at your disposal for any clarification you may have.

With best Regards;

A blue ink handwritten signature, appearing to be a stylized name, positioned above the typed name.

**SGC Marine Services Team**

