

TIANJIN PORT EXPLOSION



The huge explosion at Tianjin Port, which led to an enormous fire that affected a substantial part of the port, could lead to massive supply chain disruption. This briefing provides an overview of some of the potential consequences.

The origin

According to the Tianjin Police, the explosion happened in a warehouse operated by a logistics company called Rui Hai International Logistics Co. Ltd. Rui Hai describes itself as a government approved firm specialising in handling dangerous goods. The warehouse is reported to have been designed to store dangerous chemicals, including sodium cyanide (which is classified as “extremely harmful”) and the explosives sodium nitrate and potassium nitrate.

Two years ago the company was found to have flouted packaging standards, with Reuters reports citing an inspection carried out by the Tianjin Maritime Safety Administration.

Rui Hai will doubtless be facing substantial losses and it, together with the owner of the cargo which exploded, will be at the centre of investigations to ascertain whether the cargo was properly declared, handled and stored.

As a result of the fire, the following problems are likely to arise:

Damage or loss of both non marine and marine property

News reports show that warehouses, port buildings and real estate have all been damaged by the fire. In addition to this marine property, non marine property such as nearby residential buildings and road/rail infrastructure have also been damaged. Most of these property losses will no doubt be insured by Chinese insurers, but it is likely that some international reinsurers, including London players, will have reinsured the Chinese insurers.

London reinsurers will be reviewing their reinsurance exposure to see if they are likely to face claims.

Death and personal injuries

The press has already reported that over 50 people were killed as a result of the incident and it is expected that further deaths will emerge as the authorities continue their sweep of the disaster zone.



The injured and the families of the deceased will be looking to anyone they can to obtain answers to their questions and ultimately compensation.

The owners and manufacturers of the cargo which started the fire and Rui Hai will inevitably be in the firing line, with their respective product and operational liability insurers in the frame. Given the huge extent of the damage, it is extremely unlikely that either party's insurance will be sufficient to respond to the full extent of the overall losses.

Questions may also be asked of the port authority, Hong Kong listed Tianjin Port Development, on whose land the warehouse was located, concerning whether it discharged its obligations to ensure Rui Hai's compliance with lease/licence obligations and health and safety regulations.

Port and terminal equipment claims

It is suspected that expensive terminal equipment has also been damaged as a result of the incident. This again has probably been insured in the Chinese market, but, as with property, there could be an exposure for international and London reinsurers. Business interruption extensions to property policies will be under the spotlight if important equipment has been lost and operations affected.

Shipping container claims

TV footage and still photos show literally thousands of shipping containers damaged by the fire. They will be owned by a large number of shipping lines and container leasing companies and have been rendered total losses. It is unclear whether these were full or empty. The container shells themselves will be insured on a property basis, many with the TT Club.

The Club is currently examining its exposure. Given how many shipping lines are likely to have suffered losses, issues as to aggregation will also arise.

Cargo claims

It is unclear how much cargo has been affected by the explosions. So far, it has been reported that around 2,700 cars have been damaged, including most notably Renaults, Toyotas and Volkswagens and Land Rovers. Volkswagen in particular appears to have been particularly badly affected, with Chinese media reports citing significant damage to a number of well known brands, including the iconic VW Beetle (391), Golfs (114), Touaregs (1065) and Tiguan (257) amongst others. Reports also indicate that damage to Hyundai manufactured cars (some 4,000 Genesis and Equus sedans) could reach US\$130 million. Four helicopters operated by Eastern General Aviation Co. Limited are also known to have been damaged when a hanger door was blown off by the force of the explosion. There may also be damaged/destroyed bulk and break bulk cargoes.

As mentioned above, a large number of containers have been affected. The owners of the cargo due to pass through Tianjin will now be urgently trying to clarify with forwarders and shipping lines whether their cargoes may be those in the boxes. They in turn will be contacting the port operator so that they can locate which have been affected by the fire.

Cargo insurers will be in contact with their insureds and will be looking to see who they can make a recovery from in respect of the damage.

P&I Clubs and freight liability insurers will be facing enquiries from anxious members keen to clarify if they are likely to be held liable for cargo losses

under the contracts or carriage. The attitude of the Chinese courts and whether they will accept jurisdiction for losses and make forwarders, logistics operators and shipping lines liable is, at this stage, unknown.

Ports and terminal claims

In 2014, the Tianjin Port was the third largest in China and fourth largest globally in terms of total cargo throughput. It is simply huge, comprising 121 square kilometres of land. However, only a relatively small area, although still large by non-Chinese port standards, within the port was physically damaged by the explosion and fires.

Total cargo throughput in 2014 was 445.78 million tonnes. Of this, 286.77 million tonnes were non-containerised cargo comprising metal ore (110.50 million tonnes); coal (88.85 million tonnes); automobiles (26.21 million tonnes); steel (20.02 million tonnes); and crude oil (18.74 million tonnes). Total container throughput is stated to have been 14.06 million TEUs.

Whilst the port is operated by Tianjin Port Development, it is understood that there are a number of terminal operators with JV concessions at the port itself. There may be considerable disruption to some of these facilities. The port authority itself may also need to deal with traffic management and disruption issues. Terminal operators affected by loss of business will be looking for a remedy. As mentioned above, they will also be looking to make claims on the equipment insurance policies so that they can get their operations running normally as quickly as possible.

Terminal insurers will be assessing their potential exposure to liability claims.



Vessel calls and diversions

Immediately after the explosion, all calls and port authorities were suspended. The full suspension has now been lifted but oil tankers and oil supply ships are still prohibited from calling. The Tanggu container terminal has also suspended all new calls. Fortunately no vessels appear to have been damaged.

If the port is unable to operate in the normal manner in the coming days, pending investigations and the quarantining of affected areas, then it is likely that vessels calling at the container port and also at bulk and multi-purpose terminal areas will need to divert to other ports. This will lead to increased cost for the vessel operators and customer problems. Liner operators will face questions regarding deviation of cargoes, temporary storage, transshipment and even abandonment. Bulk operators and charterers will face issues regarding demurrage, port nomination, access to cargoes and questions of frustration.

Tianjin is one of the top ten ports in the world by container volume and local manufacturing companies may need to look at alternative ports to export their containerised product. This could lead to increased logistics costs in relation to inland legs. Customers buying road freight services from shipping lines and freight forwarders will expect them to develop solutions. Where freight rates have been agreed for road haulage, there may well be arguments between exporters and shipping lines/logistics operators about how much extra freight cost can be passed on. There may also be capacity issues if road vehicles need to divert to other ports which are further away, resulting in fewer haulage and trailer units being available.

Disputes between charterers and owners may arise and FD&D insurers

should prepare themselves for potential disputes. If there are contamination issues, port safety and/or berth safety may become an issue. The incident appears to have affected two terminals in particular.

Rail services

The port is served by multiple rail heads. Tianjin Port International Logistics Development Co. Ltd also owns and operates 15 scheduled freight train routes within China which carried 129,000 TEU of cargo in the first half of 2011. The destinations of the train routes cover most of north and west China, including Chengdu, Xian, Taiyuan and Urumqi. Three of the train routes are to the borders of respectively Kazakhstan, Mongolia and Russia.

If electricity supply has been affected and rail infrastructure damaged then these services could be disrupted with knock-on supply chain and revenue implications.

Marine services

There are a number of major marine operations at the port of Tianjin, including Chimbusco (Tianjin's bunkering services), the CSIC Tianjin Xingang Shipyard, the CSSC Xinhe Shipyard and Bohic Heavy Industry, which provide shipyard and ship repair services.

Disruption might be expected and business interruption insurers will need to consider their exposure and assist assureds with mitigation.

Industrial, processing and logistics operations

The explosion appears to have occurred where extensive industrial, processing and logistics services are undertaken. Some of these may have been destroyed by the incident whilst

others will inevitably be affected whilst part of the port is in closedown.

The extent of the explosion's impact is still only emerging. We do know, for example that businesses even up to six kilometres away from the epicentre of the explosion have been affected. It was reported in Lloyds List that Wallenius Wilhelmsen Logistics has a vehicle processing centre in Tianjin. Its staff are unharmed and its joint venture terminal and vehicle processing centre have suffered only some smaller material damage to buildings. It is also reported in Lloyds List that Caterpillar and Deere & Co have facilities near the port. Many of these industrial and logistics facilities will have property liability insurance in place to respond to their own or customer physical loss or damage claims.

It is unlikely, however, that many of them will have sufficient supply chain insurance or business interruption cover in place to protect them in full against the consequences of the explosion. Business interruption for them could be severe.

Global multinationals operating in Tianjin will likely insure their business interruption/supply chain risks in global insurance markets, including London, but the Chinese based companies will probably be insured in China.

Supply chain disruption

Motorola, Toyota, Samsung, Nestlé, Honeywell, Coca-Cola, Bridgestone, Lafarge and GlaxoSmithKline all have substantial facilities near to the explosion. 285 of the Fortune Global 500 companies are reported to have an office in Tianjin.

Entire supply chains could be affected by the closure of industrial and processing facilities within the port. Some goods manufactured inland which would ordinarily go through



the port for further processing or value-added services may need to be diverted elsewhere. Manufacturers which import components and/or raw materials into Tianjin may no longer be able to get access to them. This could cause very considerable loss of revenue and supply chain problems. Exporters may need to look to other ports as outlets for their goods and create new supply chain relationships with freight forwarders, road hauliers, shipping lines and logistics operators.

Global and Chinese insurers will be assessing their exposure for these potential claims.

Warehousing fulfilment

Numerous warehouses appear to have been affected by the explosion, many of them destroyed. Some of these will be run by manufacturers, others by logistics operators. Warehouses operated by suppliers to a leading freight forwarder are, for example, reported to have been seriously damaged.

Doubtless workers will be excluded from the affected area for some considerable time meaning that undamaged warehouses will not be able to operate. Physical damage to warehouses, either large or small, could lead to them being unable to operate at all. It is expected that basic utilities in the area will be affected, including water supply and electricity. Road infrastructure could also be affected which could mean that multiple warehouses in or around Tianjin will no longer be able to operate.

Warehouse operations outsourced to logistics operators could face claims from customers for failure to fulfil orders. Logistics liability insurers will be examining their potential exposure for these claims. Manufacturers will be looking to their supply chain and contingent liability insurance.

Environmental issues

Industrial facilities affected by the fire, including the warehouse where the explosion originated, may leak dangerous chemicals. Water could become contaminated and adjacent industrial facilities made unsafe as a result of such problems. General liability insurers will be keen to evaluate policy exposure for these potential regulatory issues.

It is likely that Chinese regulatory bodies will be considering the health and safety exposure and, in particular, threats to the water supply as a result of dangerous chemicals escaping.

Regulatory fines and investigations

The Chinese authorities will be anxious to demonstrate to the Chinese people and to the global community that they are leaving no stones unturned in relation to investigating causation. With so many deaths and injuries, the police and fire services will be carrying out interviews with the officers and directors of the company which owned the cargo which caused the fire and also the warehouse in which it was stored. It has been reported that one director of the warehouse company, Rui Hai, has already been arrested. They will no doubt extend their investigations to interviewing the port authority's senior staff and directors and anyone else with an insight into causation.

In due course, it is likely that regulatory fines and even imprisonment of those found to have been negligent or criminally negligent could arise. Some regulatory fines can be insured and brokers and insurers will be in discussions with insureds to confirm appropriate legal representation is in place.

Non-fulfilment of sale contracts

As the world's leading finished goods exporter, China uses the port of Tianjin to export products to the rest of the world. Many goods are purchased by multi-nationals on FOB or FCA terms from Chinese suppliers. With parts of the port closed and various industrial facilities either destroyed or out of action as a result of the fire, buyers will be putting pressure on suppliers to find alternative ways to ship goods to them. Where goods have been purchased on FOB or FCA terms, disputes may arise as to who actually was at risk in respect of the goods when they were damaged.

China imports huge volumes of raw materials which will also be affected. It has already been reported that Australian iron ore miners are suffering from the incident. Iron futures may have been affected and BHP has reported that shipments to China are being disrupted and that it is in discussions with Chinese customers to offset the effects of the blast.

Insurance issues

The significant property damage at Tianjin will lead to major supply chain disruption and will trigger business interruption coverage for those impacted directly, and contingent business interruption coverage for those whose suppliers and customers are impacted by the blast. As is usual in major area damage incidents, the application of wide area damage interpretation of loss causation may restrict recoveries for those in the local vicinity. The number of multinationals operating in the area will no doubt mean that global programmes written out of other jurisdictions, notably Europe and USA, will be triggered on a CBI basis, so aggregation issues will arise, but not necessarily on a regional location basis.



The Chinese media is already reporting that more than 100 insurance claims have been made by dozens of insurance companies who have launched their contingency plans. These include China Life, whose Tianjin branch has some 42 clients involved in cases, and Ping An's subsidiary Ping An Property & Casualty which has received around 140 auto insurance claims and more than 100 property insurance claims.

How HFW can help

Our team of specialists, including in Shanghai, has many years of experience in handling the legal issues arising from major incidents such as the Tianjin explosion. We have handled large and complex issues relating to the interruption of business following numerous significant catastrophes, including major flooding incidents in Queensland (Australia) and Thailand, the Icelandic Volcano eruptions, Tsunamis in Thailand and Japan, Bangkok riots etc. Warehouse fires, terminal explosions and environmental disasters are well known specialities. Our proven track record in real time casualty response gained from more than 130 years as one of the world's leading transport and trade law firms means that we can harness 24 hour response and work with our clients closely as matters unfold both domestically and internationally.



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