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Bulletin 611 - 11/08 - Expected rise in steel cargo claims - Worldwide

Current poor trading conditions, and other implications of the worldwide credit crisis, has led to expectations of a decrease in cargo claims coupled with an increase in contract dispute claims. However, ship operators should expect an increase in cargo claims for particular commodities.

Commodity prices in general are dropping and the Club has been advised, by marine consultancy Kalimbassieris Maritime, that this is particularly obvious with steel products from the Black Sea region. Their offices in both Romania and Bulgaria have noticed a major slump in the price of steel and this is expected to lead to an increase in the number of steel cargo claims.

Turkey - Europe's third largest producer of steel - has experienced a particularly sharp drop in price and production levels of steel. The export price of Turkish steel peaked in July 2008 but after a rapid deterioration in demand, steel prices have plummeted faster than expected. For example, several months ago the price of steel coils was approximately US\$1,200 per ton CIF and the price has now almost halved to approximately US\$670. In response to this drop in prices the leading Turkish steel producers have reduced production to minimize losses. Volumes are subsequently at their lowest since 2006.

The heightened risk of steel cargo claims

The steel industry is cyclical and when the economy is weak, buyers of steel tend to reject more cargo than usual: a phenomenon known as 'market rejection'. With steel prices dropping between the time of purchase and time of delivery, and considering the weakness of the secondary scrap market, there is now a heightened risk of receivers rejecting cargo.

Owners should be aware of the increased risk presented by the current economic situation and weakened secondary steel markets. A pre-loading/loading inspection by a qualified surveyor, in order to accurately describe and document the condition of the cargo, is recommended as a precaution in preventing cargo claims.



Source of information:

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