The Tianjin Port Explosion

An Aon Briefing Paper

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Background

On Wednesday 12 August 2015 a massive double explosion and fire occurred at the port of Tianjin, near Beijing in Northern China. The incident originated in a warehouse operated by a logistics company called Ru Hai International Logistics Co., Ltd. Rui Hai describes itself as a government-approved firm specializing in handling dangerous goods.

According to the Tianjin authorities a fire had broken out in the Rui Hai warehouse and fire fighters had been at the scene for about 30 minutes tackling the initial blaze when two massive explosions occurred. The initial blast was the equivalent of a 2.3 earthquake and was followed 30 seconds later by a larger explosion being the equivalent of a 2.9 earthquake, equivalent to 21 tonnes of TNT. A massive fireball then engulfed the surrounding area. The two explosions accounted for the majority of the deaths at the site, including the lives of many of the firefighters who had arrived to deal with the original emergency.

The Chinese authorities have secured the site and impose a 5 kilometre exclusion zone. Searches are continuing to look for victims. In addition the authorities have begun an investigation into the cause of the blasts and have initiated a massive clean-up operation in the area.

Tianjin is China’s fourth largest city with a population of 14 million people and is located approximately 120kms south-east of Beijing. The port is fourth largest port by throughput in the world and the third largest in China, shipping containers, cars, oil, petrochemicals, grains and ores in and out of northern China. Total cargo throughput in 2014 was 445.78 million tonnes. Of this amount 286.77 MT were non-containerized cargo comprising:

- Metal ore (110.5 MT)
- Coal (88.85 MT)
- Automobiles (26.21 MT)
- Steel (20.02 MT)
- Crude oil (18.74 MT)

Total container throughput was reported as 14.06 million TEU.
Damage and disruption

A massive amount of damage has been occasioned to the port and the surrounding industrial area. Warehouses, containers port buildings, terminal logistics equipment, railheads and roads and bridges have all been badly damaged. The port is one of the busiest container terminals and many containers have been badly damaged and destroyed.

A large number of automobiles have been badly damaged and destroyed. Local reports say that about 8,000 vehicles were being stored close to the Rui Hai site, but this figure may underestimate the scope of damage. Further away, many manufacturing facilities have stopped production either because they have suffered damage or because they are in the exclusion zone.

It will be many weeks or even months before access to the damaged area will be granted by the Chinese authorities who are coming under fierce criticism. It is likely therefore that their investigation will be extremely thorough and will take a long time.

Potential issues for clients

Clients who have any connection with the Port of Tianjin will have been affected in a number of ways:

- Direct damage to property in situ at the port
- Damage to warehouse, manufacturing and storage facilities
- Disruption to operations in the vicinity due to the operation of the exclusion zone
- Diversion of goods in and out of China to other facilities
- Damage to third party goods under the client’s care custody and control
- Disruption to global operations due to supply chain disruption, either first, second or third tier suppliers
- Inability to service customers due to damage at the customers operating facilities or closure of the importing/exporting facility

Insurance

The types of claim that are likely to arise from this incident include:-

- Property damage to own property
- Property damage to goods owned by customers and third parties
- Business interruption (loss of gross profit and/or increase in cost of working):
- Arising directly from damage to property
- Arising from supply chain disruption
- Arising from damage to customers premises
- Arising from denial of access to operational facilities
- Construction and DSU claims where critical plant may be destroyed or stuck in port.

Clients should assemble known facts, review coverage and ensure that carriers are notified of any potential claim.

It is particularly important that clients with potential business interruption claims undertake the investigation tasks themselves and do not leave it to insurers representatives to establish the facts. Clients are advised to keep control of their claim as a project from day one, and the establishment of the proximate cause of a business interruption loss is crucial to the chances of such a claim being fully recovered from carriers.

How Aon can help

Clients should advise their Aon service teams of any known or expected losses as soon as possible.

Aon claim advocates, supported by specialists from Aon’s Global Claims Preparation & Valuations team, stand ready to assist in the provision of guidance, engagement of insurance companies and other relevant service providers, and in the critically important assessment of business interruption loss. Many clients will benefit from coverage provided in property policies for claims preparation services. Our claims advocates will partner with broking and client management colleagues to identify the level of such coverage available and will ensure the immediate introduction of a claims preparation project leader.

Aon clients have access to a global team of over 1000 claims professionals. Specific to claims preparation and valuations, clients are served from six centers of excellence and by a team that includes highly experienced forensic accountants, loss adjusters, project managers and loss mitigation experts. This team has successfully managed some of the largest and most complex claims in recent years – including Buncefield, Japanese earthquake and tsunami, Thailand floods, Hurricane Katrina, Super Storm Sandy, Christchurch earthquake, Chile earthquake and Queensland floods.
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