



Mr Anthony Johnston
Commissioner of State Revenue
NSW Office of State Revenue
The Lang Centre, 132 Marsden Street
PARRAMATTA NSW 2150

4 April 2016

Dear Mr Johnston

COMMERCIAL HULL EXEMPTION UNDER THE DUTIES ACT 1997 NSW

The Insurance Council of Australia¹ (the Insurance Council) is writing in response to the NSW Office of State Revenue's (OSR) recent change in interpretation of the exemption for commercial hull insurance under section 259(1)(i) of the *Duties Act 1997* (NSW) (the Act).

Through its members, the Insurance Council understands that the OSR has taken the view that only some of the insurance premium payable on a commercial hull insurance policy would be exempt from duty under the Act where a policy covers both the hull and machinery of a vessel (used interchangeably with the term "ship").

We understand that the OSR's view is predicated on the use of the term 'machinery' after the term 'hull'. The ramifications for OSR are that: hull and machinery are separately insurable assets of a vessel which attract different insurance premium rates; and the duty exemption does not apply to 'machinery' because that term is not used in section 259(1)(i) of the Act.

However, we strongly disagree with the OSR's interpretation that, where a policy covers both hull and machinery, the exemption under the Act does not extend to machinery.

Importantly, the exemption for stamp duty in marine insurance policies in section 259 of the Act was introduced to level the international playing field so that marine insurers in NSW (and all other states and territories) could compete with foreign insurers. This was a direct response to national concerns in the 1980s that stamp duty on marine insurance was pricing Australian insurers out of the global market and adversely affecting Australian exports.

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. December 2015 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$43.4 billion per annum and has total assets of \$119.3 billion. The industry employs approximately 60,000 people and on average pays out about \$121.9 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Furthermore, the OSR's interpretation of the term "hull" under the Act is inconsistent with the Commonwealth's established interpretation, which explicitly recognises that the term covers machinery, fittings, stores and provisions, not just the body or frame of the ship. Indeed, every other State and Territory, except the ACT, has exempted the entire premium covering loss or damage to insured vessels as applying to both hull and machinery where their legislation exempts stamp duties on "hull". The ACT exempts stamp duty on "ship" which is clearer and consistent with the stated intention of the exemption to promote local insurance businesses.

The OSR's interpretation also conflicts with longstanding market practice of using the term machinery and hull in an insurance policy. This practice does not treat hull and machinery as separate insurables. There is no separate hull insurance and machinery insurance. The industry does not distinguish between hull and machinery as the latter is an integral part of the vessel, which is permanently and physically attached to it and cannot be separated. To depart from international consistency without good reason runs the risk of inefficiency and confusion.

For these reasons, we strongly submit that the OSR's view is misguided. It conflicts with the policy intent of section 259 of the Act to improve the international competitiveness of Australian marine insurers; a goal which is still relevant today.

Also, the OSR's interpretation of the term "hull" within the Act is contrary to the principles of statutory interpretation. Sections 33 and 34 of the *Interpretation Act 1987* provide that when interpreting legislation, consideration should be given to its underlying purpose and that extrinsic material should also be used. It is not apparent that the OSR has taken these matters into consideration.

The Insurance Council therefore submits that the exemption under section 259(1)(i) of the Act rightly covers both the 'hull' and 'machinery' of a vessel. The Attachment sets out the detailed reasoning underpinning our position.

The Insurance Council would appreciate an opportunity to meet you to discuss this matter in detail and will contact your office to arrange a suitable time. In the interim, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on tel: (02) 9253 5121 or email: janning@insurancecouncil.com.au if you require further information.

Yours sincerely



Robert Whelan
Executive Director and CEO

HULL INCLUDING MACHINERY AND EQUIPMENT SHOULD CONTINUE TO BE EXEMPT

Underlying intent of section 259

The Insurance Council notes that in interpreting any provisions contained within the Stamp Duties Act 1997 NSW (the Act) regard should be had to its underlying purpose or objective.

Section 33 of the *Interpretation Act 1987* provides that regard should be had to the underlying purpose of an Act:

“In the interpretation of a provision of an Act or statutory rule, a construction that would promote the purpose or object underlying the Act or statutory rule ... shall be preferred to a construction that would not promote that purpose or object.”

The exemption from stamp duty for marine insurance policies in section 259 of the Act was principally introduced to allow NSW marine insurers to compete with international insurers on a level playing field.

In 1986, the former Commonwealth government announced significant reforms to increase Australia’s global competitiveness. This included a specific measure to remove stamp duty on marine insurance, targeted at increasing Australian exports. Marine insurance was, at that time, mainly provided by foreign insurers.

In announcing² those significant reforms in September 1986, the then Australian Prime Minister, the Hon. Robert J Hawke explained that:

“... the Government has taken further substantial steps to make it easier for Australian firms to meet world competition. The first concerns international marine insurance. In 1984-85 premiums totalling about \$ 800m were paid in respect of such business originating in Australia but only some 25 per cent of this was written by Australia based insurers. Stamp duty on international marine insurance contracts varies from State to State but invariably is substantially in excess of the world norm. The Government considers this to be an unnecessary impediment to the sale of insurance services by Australian insurers.”

The Commonwealth government’s concern was that stamp duty imposed on marine insurance was passed on in the form of increased premiums which priced Australian marine insurers out of the market – notwithstanding their capabilities and that the insured risks were global risks.

As the stamp duties were imposed at the State and Territory level, the Commonwealth government did not have the power to repeal them, so it repealed them under the *Taxation Laws Amendment Act (No. 2) 1987*³, and recommended that the remaining States and Territories jurisdictions follow suit.

² Address by the Prime Minister- Third annual general meeting Business Council of Australia – Sydney – 17 September 1986. Transcript ID 7004.

³ Section 4 Taxation Laws Amendment Act (No. 2) 1987 – Amendment of the Australian Capital Territory Tax (Insurance Business) Act 1969.

All States and Territories enacted amendments to their stamp duty legislation to exempt policies of marine insurance from stamp duty which remain exempt to this day.

The wording of the exemption referring to the “hull” has not changed in NSW since its introduction and the reference to “hull” in the exemption is consistent with the wordings of the equivalent exemptions in Victoria, Queensland, Western Australia, South Australia, Tasmania and the Northern Territory.

Critically, none of these jurisdictions charge stamp duty on a vessel’s machinery.

The ACT is the only jurisdiction that does not use the term “hull” but uses clearer drafting by exempting insurance of a “ship” from duty, thus exempting premiums on hull and machinery policies from stamp duty.

In NSW, the predecessor to section 259 of the Act was section 87 of the *Stamp Duties Act 1920* (NSW). This Act was amended in 1989 to exempt policies of marine insurance from stamp duty under the *Stamp Duties (Amendment) Act 1989 No. 113*, which put in place section 87(j)(i) into the former Act:

*“insurance of:
(i) the hull of a floating vessel used primarily for commercial purposes;”*

This was one of a suite of changes introduced by the *Stamp Duties (Amendment) Act 1989 No. 113* to the stamp duty regime in NSW in order to bring it into line with other States and Territories by assessing duty on the basis of a percentage of premiums received rather than on each policy being individually assessed as a percentage of the sum insured.

The previous system had been criticised as being time consuming and the new system was praised in parliament as it would provide savings in administrative costs for insurers as well as simplifying audit procedures for the OSR. Significantly, the parliamentary debates⁴ make it clear that the amendments regarding the exemption for marine insurance were modelled on the Victorian provisions to:

“... facilitate further the conduct of insurance business...” and “... ensuring harmony and, more important, uniformity in relation to stamp duty.”

Section 87 of the former *Stamp Duties Act 1920* (NSW) is the same wording as the current section 259 of the Act and almost the same wording as section 95 of the *Stamps Act 1958* (Vic), which exempted *“insurance of a hull of a floating vessel other than a hull of a vessel which is used primarily of commercial purposes.”* Nothing turns on the minor differences between the two provisions.

Turning to the parliamentary debates that led to the amendment of section 95 of the *Stamps Act 1958* (Vic) to exempt marine insurance, the introduction of the *Taxation Acts (Amendment) Bill* provided for various Victorian State Budget initiatives, including the:

⁴ Stamp Duties (Amendment) Bill 1989, second reading speech to the NSW Legislative Council on 2 August 1989 by the Hon. Edward Pickering, former Minister for Police and Emergency Services and Vice-President of the Executive Council; and statement by the Hon. John Matthews, former Member of the NSW Legislative Council.

“Abolition of stamp duty on marine insurance (goods in transit and commercial hulls) in order to encourage Victorian companies to increase their share of this insurance business ...”⁵.

The explanatory memorandum of the *Taxation Acts (Amendment) No. 88 of 1986* (Vic) amended section 95 of the former *Stamps Act 1958* (Vic) to “[implement] the [1986] Budget decision to abolish insurance duty on transport insurance and marine insurance other than for pleasure crafts”.

The Insurance Council understands that the OSR has previously referred to the current Victorian wording of that provision in section 196(c)(i) of the *Duties Act 2000* (Vic) which exempts “*the physical hull of a floating vessel used primarily for commercial purposes*”.

The word “physical” was introduced in 2000 in the current *Duties Act 2000* (Vic), which repealed the *Duties Act 1958* (Vic) with the explanatory memorandum stating:

“The object of this Bill is to replace the Stamps Act 1958 with a modern statute expressed in clear language and with a more contemporary conceptual foundation.”

While the purpose of the amendment to include the word “physical” was not identified, we firmly submit that it refers to both the hull and the machinery of an insured ship.

Significantly, the State Revenue Office Victoria has continued to exempt hull and machinery policies from stamp duty, which includes the insured vessels’ machinery, as do all other State and Territory revenue offices in Australia.

In summary, the insertion of section 87(j)(i) into the *Stamp Duties Act 1920* (NSW) to exempt hull and machinery policies from stamp duty was modelled on the amendments to section 95 of the *Stamps Act 1958* (Vic), which was specifically introduced in 1986 as a Victorian State Budget measure to encourage Victorian marine insurers to increase their share of this insurance business.

All States and Territories have continued to exempt stamp duty on the premium so far as it covers loss or damage to the ship insured. They have not sought to interpret the term “hull” narrowly and break down the premium into separate components for hull and machinery with the intention of charging stamp duty on the machinery component of the premium.

Notably, these reforms have supported an increase in insurance premiums written by Australian insurers, which has contributed to the growth in national exports of Australian marine insurance products.

On this basis, the Insurance Council strongly submits that the OSR’s application of a stamp duty to the premiums payable in respect of ‘machinery’ of a vessel is in conflict with the policy intent behind section 259 of the Act, and is contrary to one of the key principles of statutory interpretation. It is critical that the original intent of the law – to enhance the international competitiveness of Australian marine insurers – is upheld. If the OSR continues to see merit in pursuing its interpretation, it should justify why it would be beneficial for the

⁵ Taxation Acts (Amendment) Bill 1986 second reading speech 4 December 1986 for the Hon. D. R. White (former Minister for Health), the Hon. E. H. Walker (former Minister for Agriculture and Rural Affairs).

NSW economy to depart from a policy approach that supports economic growth to one that would detract from it.

It is also worthwhile pointing out that a similar intent is likely to have underpinned the other various exemptions from government taxes and charges that currently apply to marine insurance, for instance: the GST exemption on import/export cargo; and stamp duty and FSL exemption on cargo. Therefore, the OSR's view regarding machinery is also contrary to the spirit and purpose of those exemptions as well.

Interpretation of the term “Hull”

While the term “hull” within section 259(1)(i) of the Act is not a defined term within the Act or its predecessor legislation, the *Stamp Duties Act 1920* (NSW), the Insurance Council considers that the evidence strongly points to the term being intended to include fixtures and fittings such as machinery.

This is consistent with the Commonwealth Government's established interpretation, which was recognised by the Australian Law Reform Commission (ALRC) in its discussion paper⁶ that laid out the foundations of its review of the *Marine Insurance Act 1909*. The ALRC was clear in emphasising that the term “hull” captures, among other critical components, the machinery of a ship or vessel:

“Hull insurance is a term used to describe the insurance of a ship or vessel. Although the term suggests only the hull is covered, in fact this type of insurance covers hull, machinery, fittings, stores and provisions, not just the body or frame of the ship”.

As there is no definition of “hull” within the Act, regard should be had to the Commonwealth Government's interpretation. In this sense, drawing a distinction between hull and machinery for the purposes of the Act would be inconsistent with the Commonwealth's established approach.

Drawing a distinction is also contrary to another key principle of statutory interpretation provided under the *Interpretation Act 1987*. Subsection 34(1) of that Act makes it clear that in interpreting an Act and statutory rules, regard should be given to extrinsic materials:

“In the interpretation of a provision of an Act or statutory rule, if any material not forming part of the Act or statutory rule is capable of assisting in the ascertainment of the meaning of the provision, consideration may be given to that material... to determine the meaning of the provision ... if the provision is ambiguous or obscure, or ... if the ordinary meaning conveyed by the text of the provision ... leads to a result that is manifestly absurd or is unreasonable.”

The Commonwealth's interpretation is a critical consideration that should be relied on in determining the meaning of the term “hull” under the Act.

Other important contextual material that should be considered is the way the term “hull” is traditionally applied in practice by the marine insurance industry (this is detailed in the section below under ‘Established market practice’).

In this regard, it is clear that the term “hull” encompasses not only the frame of the vessel, but also its machinery, which is usually permanently attached to the hull.

⁶ Australian Law Reform Commission 2000, Discussion Paper, *Review of the Marine Insurance Act 1909* (DP 63), para 1.19.

While the Insurance Council is unable to comment on the thinking behind the drafting of the exemption in the Act, it should be noted that marine builder risks (vessel construction risks on land) are not subject to the exemption and could be an explanation as to why the words “the hull of a floating vessel” are used in the Act.

Furthermore, we note that relevant provisions of the *Marine Insurance Act 1909* (MI Act) indicate that a vessel’s hull and machinery are not separable components. The second schedule⁷ of the MI Act defines a ship, stating that:

“The term “ship” includes the hull, materials and outfit, stores and provisions for the officers and crew, and, in the case of vessels engaged in a special trade, the ordinary fittings requisite for the trade, and also, in the case of a steam-ship, the machinery, boilers, and coals and engine stores, if owned by the assured.”

The MI Act also sets out how the insurable value of a ship must be ascertained, confirming here also the inclusion of machinery as a non-separable component, with section 22 of that Act stating:

“In insurance on a ship, the insurable value is the value, at the commencement of the risk, of the ship, including her outfit, provisions and stores for the officers and crew, money advanced for seamen’s wages, and other disbursements (if any) incurred to make the ship fit for the voyage or adventure contemplated by the policy, plus the charges of insurance upon the whole:

The insurable value, in the case of a steam-ship, includes also the machinery, boilers, and coals and engine stores if owned by the assured, and, in the case of a ship engaged in a special trade, the ordinary fittings requisite for that trade:”

To our knowledge, the OSR’s change of view is the first time in 30 years that any government has taken a different interpretation to section 259(1)(i) of the Act. As we explained earlier, no other State or Territory government charges stamp duty on the ‘machinery’ component of hull and machinery policies.

Established market practice

Recognised internationally, hull and machinery insurance is a form of marine insurance that pays the insured for damage to the ship itself and/or the machinery that intuitively forms part of it (e.g. a ship’s engine). It is often simply referred to as ‘hull and machinery insurance’ or ‘hull cover’.

As insured vessels vary in size, value and complexity, hull and machinery have historically been treated as analogous and with the same premium rate charged. Vessel types can vary in purpose to include fishing, cruise, dumb barge, tug, dredging, ferry, bulk carriers and container vessels. This is also true for the level of machinery on board different vessels, which range from no machinery – as usually applies to dumb barges – to highly sophisticated machinery on board state of the art dredging vessels.

As machinery cannot be separated from the hull without interfering with the integrity of the hull – much like how an engine is integral to a motor vehicle that cannot be separated (i.e. insurance cannot be purchased for an engine that is within a motor vehicle) – the premium

⁷ The Second Schedule, Section 36(15) *Marine Insurance Act 1909*.

rate for hull and machinery is one and the same. Hull and machinery policies are underwritten on the basis of a total sum insured on a vessel and customers have traditionally purchased policies on this basis.

In the Australian market, the majority of commercial vessels are insured under Institute Hull Clauses⁸, which are standard form wording incorporated into commercial hull insurance policies issued worldwide. They are used in the placement of Australian fleets both locally and internationally (in some cases, the security is split between markets). Institute Hull Clauses are published on the International Underwriting Association of London's (IUA) website and proposed amendments are subject to a lengthy consultation process.

For example, the Institute Time Clauses Hulls 1.10.83 refers to commercial cover for the "Vessel", which includes both the hull structure and the machinery/rest of the vessel.

Importantly, these clauses only distinguish between hull and machinery in terms of deductibles and claim limits. This distinction is made due to the complex nature of machinery and its greater susceptibility to damage; so underwriters can impose additional [internationally standardised] clauses such as an 'Additional Machinery Deductible'⁹ and/or sub-limit the sum insured for machinery.

Strictly however, this does not mean that machinery is priced separately, as the difference in coverage solely reflects measures to control the fact that the machinery and the non-machinery component of a commercial vessel are exposed to different risks.

Whilst the reasoning behind the use of the word "hull" in the legislation is not known, the exemption was introduced to apply to marine policies generally at a time when the policies to which the exemption was directed insured the "Vessel", a term which included the ship's hull and machinery.

There is no evidence that the term "hull" was used in the legislation with the intention to charge stamp duty on any part of the premium that covered the machinery of the ship.

Accordingly, it is inappropriate to construe the term "hull" in the legislation so narrowly as to exclude machinery, unless that was the clearly stated intention of the government at the time that the exemption was introduced

The leading English text on this topic, Arnould's Law of Marine Insurance and Average (Seventeenth Edition), paragraph 10.2, deals with what is covered by a policy on a ship:

"The new printed policy forms contain a space for the name of the vessel, and a space for the subject matter insured, which in the case of a policy on ship will be completed by the insertion of words such as "hull and machinery etc.". The word "vessel" is used rather than the word "ship, although this is unlikely to be of great significance....In keeping with the brevity generally of the new forms, the words "and

⁸ The vast majority of commercial vessels are insured Under Institute Hull Clauses, either the ITC1.10.83 or the IHC 1.11.03. The Australian Market also has products that incorporate plain language wordings that use the full definition of hull, machinery and equipment, and are commonly issued to customers that have vessels for mixed usage (e.g. a yacht that is used for commercial and private purposes).

⁹ Where a claim arises regarding damage to machinery, a further deductible (how much of an insurance-covered expense is borne by the policyholder) over and above the policy deductible referred to above may be applied, depending on the particular clause(s) incorporated in the policy.

also upon the body, tackle, apparel, ordnance, munition, artillery, boat, and other furniture, of and in the good ship or vessel called the”, etc. which appeared in the old S.G. policy form, are omitted, and the (very few) difficulties to which they on occasion gave rise are thus no longer likely to trouble the market. But although the current policy forms do not contain this wording, it is likely that the scope of cover will be treated as being the same as it was under the old forms.... Occasionally there are separate valuations of hull and machinery in valued policies. It is unnecessary to mention the machinery in the policy, for the term ship in a policy upon a steamship covers the machinery as well as the hull. The object of the separate valuation is to provide that for certain purposes, in particular as regards to average, the hull and the machinery are to be considered separately insured.”

In summary, the term “Vessel” in the standard wordings in the Institute Clauses covers both hull and machinery, which is consistent with the second schedule to the *Marine Insurance Act 1909*, where clause 15 defines the term “ship” as including for example the hull, machinery, and boilers. In that context, the term “hull” should not be narrowly construed so as to not include machinery.

As marine law is practiced globally, care has been taken to maintain consistency in the domestic marine law with long-established international marine law. Reflecting this, marine law is well understood by industry participants and the legal and judicial profession, both in Australia and in our overseas trading partners. This has produced consistency and certainty in the global application of marine law.

For that reason, any departure from established industry practice should be undertaken with an awareness of the resulting likely inefficiencies that would be detrimental to the domestic market and economy more broadly.

Detriment to international competitiveness

The Insurance Council is concerned that imposing a stamp duty on machinery is not only contrary to the underlying intent of the Act, but would lead to unnecessarily higher domestic marine insurance premiums, which will make marine insurance in Australia less attractive and diminish the international competitiveness of Australian marine insurers.

In that case, marine insurance contracts for Australian risks would likely to be increasingly issued by Australia’s global competitors. The adverse economy-wide implications resulting from this could be substantial. There would be a material flow on impact to associated domestic industries such as service providers appointed by insurers, as well as any related dispute resolution and litigation being managed in foreign jurisdictions.

We note that foreign insurers (such as those based in Singapore) are playing an ever increasing role in the Australian hull markets. Our understanding is that duty should be applicable based on location of risk rather than the residency status of the insurer. In this sense, duty should be the same for policies written by resident insurers and non-resident insurers alike.

However, we also understand that foreign insurers are less likely to comply and the OSR is less able to enforce compliance of foreign insurers, which gives rise to our competition concerns. Accordingly, Australian marine insurers will be placed at a material competitive disadvantage to foreign insurers as they are unlikely to comply with the OSR.

As an indicator of domestic market size and potential economic impact, the total value of gross written marine insurance premium from Insurance Council members is currently worth over \$0.5 billion per year. The Insurance Council estimates that commercial hull insurance comprises around 12 per cent (or about \$60 million) of the total gross written premium, and that there are around 30,000 active commercial hull policies in Australia.

Cost-benefit analysis is needed

The Insurance Council submits that a cost-benefit analysis needs to be undertaken if the OSR is intent on pursuing its changed interpretation of the hull stamp duty exemption. Any proposed changes to taxation policy should be supported by an assessment of all the costs and benefits, to ensure that there is a net benefit to be derived and that a net efficiency loss is not generated for the community.

The OSR should undertake a systematic assessment of all the relevant costs and benefits of its interpretation. The Insurance Council submits that undertaking this assessment would reveal that the total compliance/collection costs far exceed any additional stamp duty revenues, which would generate a material net efficiency loss for the NSW economy.

As we emphasised earlier, the marine insurance industry does not conduct separate valuations for machinery on a vessel. Therefore, the costs of unnecessarily creating different systems, proposals and documentation to capture information, so that insurers can rate the hull and machinery components separately in order to then charge stamp duty on machinery, would far exceed the amount of revenue that may be raised.

If a separate valuation of the machinery of a vessel (for example its engine) were to be required, there is an unknown number of variables that would need to be considered including: specifications; condition; age; trading history; geographical location; commercial use; country origination; and spare part availability. In addition, commercial vessels differ significantly from say pleasure craft, as the latter are more homogeneous, with valuations available through Glass' Guide.

From a systems perspective, the cost of changes required to accommodate a completely different approach to stamp duty would be significant. It would be necessary to separately calculate stamp duty for different items comprising each vessel insured based on a split of the sum insured for each vessel.

As an example, for large commercial hull fleets (which often comprise over 50 vessels), this would involve – at a bare minimum – a separate calculation for each vessel insured. The complexity of the premium rating algorithm, calculation and amount of data required to be captured and appropriately stored would be substantial.

The Insurance Council estimates that this would unnecessarily burden marine insurers with at least \$2.5 million in upfront compliance establishment costs alone.

For most large commercial vessels, the machinery is likely to represent only a small fraction of the cost of the vessel as a whole. Therefore, the stamp duty revenue generated by such a change is therefore likely to be relatively small compared to the significant cost of changes required to calculate and collect it.

The Insurance Council estimates that the NSW economy's share of the total gross written premium for commercial hull insurance in Australia is 30 per cent (at around \$18 million per year). For argument's sake, taking an arbitrary proportional split of 25 per cent¹⁰ for machinery, the relevant premium would be \$4.5 million per year (based on the said \$18 million). Assuming a stamp duty rate of 9 per cent, the amount of stamp duty raised by the OSR would only be \$405,000 per year, which is significantly below our estimated compliance set up cost of \$2.5 million.

The OSR's intention to charge stamp duty on the premium allocated to the machinery, will not only increase the administrative costs for insurers as well and add a layer of investigation in the audit procedures for OSR (which the amendments made at the same time were designed to abolish), but also compel insureds to incur survey fees to obtain separate valuations and appraisals of hull and machinery for each insured vessel.

¹⁰ This is a completely arbitrary number – it is absolutely in no way an estimate or approximation and does not in any way reflect any industry practice.