

***Real risks your cargo faces! – Advice for shippers***



***Don't wait any longer – Protect you assets***

# The real risks your cargo faces

The majority of cargo arrives safely at its destination. However, marine vessel and aircraft casualties occur on a daily basis resulting in millions of dollars of loss, damage and delays to cargo.

Common marine casualties include engine and other machinery failure, piracy, sinking, collision, grounding, fire, ingress of water, and shift of cargo. Every year over 200 ships are lost, 3,000 marine casualties reported and USD1.5bn of marine salvage operations take place. In 2008, 293 vessels were the victims of piracy and armed robbery.

Casualties are not restricted to bad weather miles away from shore; they can equally happen in calm inland waterways, on the road or in warehouses. Nor are they affected by type of vessel or type of voyage; air cargo makes up only 4% of all air traffic, but an astonishing 24% of all air accidents. And all marine cargo owners can be subjected to a General Average ("GA") claim, even if their cargo is undamaged.

## General Average – what is it?



Imagine yourself onboard a vessel that is on fire. You jump into a lifeboat along with ten other people and each of you brings your hand luggage.

However, the lifeboat can only hold ten people plus hand luggage, and as it starts to take on water everyone accepts that they will need to make a sacrifice if they are to avoid disaster. Fortunately, only four people need to throw their hand luggage overboard and the rest can keep their possessions. This sacrifice means the lifeboat doesn't sink, the people survive and the majority of hand luggage remains intact (i.e. a "Total Loss" was avoided). But before everyone is allowed to step back onto shore, the seven people who didn't sacrifice their luggage have to pay their share of

compensation to those who did, or agree to have their hand luggage withheld until their share is paid.

Applied to shipping, GA is used as way of sharing the costs of saving a vessel and its cargo equally amongst all parties even if the incident does not affect them equally.

GA is declared when a vessel encounters a problem that threatens the completion of the journey. The journey itself is considered a "common venture" between all parties, including the cargo owners and ship-owner. So, if the journey is threatened, for example by the vessel running aground or containers catching on fire, it means each party must provide their share of security to cover the cost necessary to save the "common venture", even if their cargo is not damaged. This share is divided equally, based on the value of the cargo (not on weight or volume).

Where the parties have adequate marine insurance, the insurer guarantees the security so the cargo can be released relatively quickly. However, without adequate insurance, the cargo is held until the GA Adjuster calculates the necessary share owed by each party, and the relevant money is paid by the cargo owner or until a full cash guarantee is provided. The calculation is laborious and can lead to cargo being held for many months or years.

## How does it affect me?

If your cargo is on board a vessel when the ship-owner declares General Average, you will need to find the security to guarantee its release (on average 20% of the value of your cargo). If you are unable to raise this security, your cargo will be held indefinitely.

## I've never heard of it – it must be rare.

Unfortunately, it is more common than most people realize and amounts to approximately 10% of the loss expenses of marine insurers because of the size and frequency of GA claims.

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## Some recent examples of marine casualties include:

### **Grounding** – MSC Sabrina, March 2008

In the St Lawrence River, Montreal, this vessel ran aground and all initial attempts to free it failed. The owners sent another vessel which arrived 20 days later and removed 400 containers in an attempt to lighten Sabrina's load to help the vessel refloat. General Average was declared to cover the costs of freeing Sabrina. It took one month before the vessel was reloaded and USD100m of cargo was delayed by over 30 days.

### **Engine Failure** – MV Fedra, October 2008

Off the coast of Gibraltar, the vessel lost engine power, and combined with force 8 gales, began to drag anchor. Tugs were able to get the vessel under control, but the weather worsened and eventually the ship drifted stern-first into the cliffs before swerving into them. All the crew was evacuated to safety but the vessel spilled 150 tons of oil into the sea.



### **Piracy** – MV Faina, September 2008

This is one of the longest known hijackings in history. The vessel, crew and cargo were released in February 2009, five months after MV Faina was captured and only after a USD3.2m ransom was paid by the ship-owner. There were reports that the delay in paying the ransom was due in part to issues between the ship-owner, insurer, shipper, buyer, relevant government officials and relatives of the kidnapped crew.



### **Sinking** – MV Ice Prince, January 2008

Off the south-east coast of England, MV Ice Prince encountered bad weather and began rolling heavily. It was carrying 5,300 tones of timber on board and a portion of that shifted; the vessel sank the next day. All the crew was rescued but 200 tons of timber swept up onto the English shore.

### **Listing** – MV Courage, January 2008

The most likely cause of this particular listing was the transfer of fluids between tanks whilst in the port of New Jersey. As a result, 370 BMWs were damaged and 70 were considered a Total Loss (mostly M3s) causing millions of dollars worth of damage.

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## **What can I do to protect my cargo?**

Adequate cargo insurance can cover you for loss or damage to your cargo, and provide security if a vessel declares General Average. Talk to your freight forwarder for more information about the cargo insurance available to you.

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For the latest casualty reports, please visit <http://www.wcaf-riskmanagement.com/> and click "Ocean Casualties Listings" tab.