

## Advice for Shippers: Protect Your Assets

### Know 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. Last year, nearly a hundred ships were lost; 2,600 marine casualties reported and USD1.5bn of marine salvage operations took place. In 2013, 264 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 shipowner. 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 shipowner 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 realise 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 - Tromso, April 2014

The tanker Tromso ran aground in the Diego Suarez Bay entrance, north Madagascar, on 17<sup>th</sup> April with 10,000 m<sup>3</sup> of crude oil on board, breaching one of its two hulls. Salvage teams were dispatched from South Africa to Madagascar to prevent oil leaking into the Emerald Sea. The Madagascar authorities say human error caused grounding.

#### Engine Failure - Till, February 2014

General cargo vessel Till suffered an engine failure and became disabled near the Bosphorus Bridge. Two tugs towed Till to Ahirkapi Anchorage at the southern entrance of the Strait of Istanbul VTS. Till was en route from Bulgaria to Akiaga, Turkey.

#### Piracy - Naniwa Maru No.1, April 2014



At the time of the incident, there were 18 crew comprising Indonesians, Indians and Thai nationals onboard the tanker. Five robbers appeared at the bridge, held the crew while they siphoned about 2,500 metric tonnes of marine diesel oil and escaped. The master, chief officer and chief engineer were taken by the robbers, together with their personal belongings and travel documents. Of the two vessels which came alongside MT Naniwa Maru No. 1, one had a Mongolian flag, with a black and white hull, and shelter at the poop deck.

#### Engine Failure, Listing and Sinking - Elland, February 2014

General cargo vessel Elland, loaded with plywood, had to drop anchor off the Bulgarian coast after an engine failure. The vessel initially developed a list of 15 degrees, which later increased to 25-30 degrees due to a cargo shift caused by the rolling while at anchor. Elland was en route from Constanta, Romania to Izmir, Turkey. The crew of eleven abandoned the vessel fearing it would capsize. The vessel had on board ten tons of fuel when it finally foundered. Only a slight film of oil was observed.

#### Sinking - Sumise Maru No.38, March 2014



Cement carrier Sumise Maru No.38 collided with chemical tanker Kaisei Maru off Himeji, Hyogo Prefecture in the Japan Sea and sank shortly after collision. Kaisei Maru was loaded with methanol and was able to proceed under its own power to Himeji for repairs.

### 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.

For the latest casualty reports, please visit <http://www.wcariskmanagement.com> and click on the “Ocean Casualties Listings” tab.