

General Average

AND THE NEED FOR Cargo Insurance

General Average is a legal principle of maritime law. A General Average occurs when a voluntary sacrifice is made to safeguard the vessel, cargo or crew from a common peril (e.g., jettison of cargo to extinguish a fire).

If the sacrifice is successful, all parties contribute to the loss based on their cargo's value.



SAMPLE GENERAL AVERAGE LOSS

General Average claims require all cargo owners on a vessel to contribute to the loss. Even if your cargo isn't damaged, you still need to make a financial contribution (based on the total value of the ship's cargo) for your goods to be released. Here's how it works:

Value of vessel	=	\$60 million
Value of cargo	=	\$140 million
Total value of voyage	=	\$200 million

- Assume cargo loss and vessel repairs total \$20 million.
- Therefore, \$20 million out of \$200 million, or 10%, of the voyage suffered a loss.
- Each cargo owner must contribute 10% of the value of their cargo.

IF CARGO ISN'T INSURED

- Cargo will not be released until the shipper posts a guarantee.
- The guarantee must be in the form of a cash deposit, bank guarantee or bond.

IF CARGO IS INSURED

- The marine cargo insurer should be notified immediately.
- The insurance company will post the General Average Bond and Guarantee to meet the cargo owner's contribution and facilitate release of the cargo.

For more information on how Cargo Insurance can protect you from the threat of General Average, contact your local representative.



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