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REPORT BY THE CHAIRMAN OF THE SPECIAL GROUP ON TRANSPORT INSURANCE

The Special Group held discussions with representatives of the International Chamber of Commerce and the International Union of Marine Insurance, after which the Chairman of the Special Group reported to the CONTRACTING PARTIES at their meeting on 16 November as follows:

"In accordance with its terms of reference established by you, the Special Group which was asked to procure supplementary data on the views of the International Chamber of Commerce and the International Union of Marine Insurance, on the question of discrimination in marine insurance, had an interview this morning with Mr. Harrold and Professor L'Huillier, representing the International Chamber of Commerce, and Mr. Róth, representing the International Union of Marine Insurance. These talks, which were held with the representatives of world trade and marine insurance, proved extremely useful, for they enabled us to gain supplementary information on the results of the investigation carried out by the International Chamber of Commerce. The representatives of the contracting parties who were present at the interview, also had an opportunity to put additional questions to the representatives of the interested parties and to gain an insight into certain aspects of the problems which had not come out clearly from the documents before us.

"Mr. Harrold, in particular, gave a very detailed statement on the specific difficulties encountered by some exporters as a result of regulations established by certain countries. That statement was illustrated by the analysis of a number of practical examples which greatly interested the members of the Group. At the request of the representative of France, a summary of Mr. Harrold's statement will be distributed by the secretariat.

"Without reproducing here all the arguments adduced or giving a full account of the talks, I think it may be useful for delegations who did not attend the interview to hear a brief summary of the discussions of this morning.

"It appeared clearly that marine insurance circles do not seem to consider the regulations adopted by a number of countries as causing serious injury to the insurers themselves. Their view on this point seems to be that every country is entitled to regulate the insurance market in such a way that those insured are guaranteed that their interests will be safeguarded, and that the companies receiving the premiums paid by them will be solvent and will meet their obligations, should damage occur. Further, the representatives of marine insurance consider that regulations introduced by countries to protect the insurance market on their territory may influence the distribution of business over the various companies without, however, altering the global quantum of business. They also feel that, in general insurance needs themselves require that risks be shared through underwriters' contracts, and therefore a proportion of business that may be lost to the insurance companies, properly speaking, reverts to them indirectly through the underwriters.

"What is of concern to insurers and international trading circles alike is therefore the additional obstacles in the path of international trade caused by the intervention of certain governments when sales contracts are signed between exporters and importers. The representatives of private interests merely ask that the two parties to be insured be free to contract insurance policies with the companies of their choice to the best of their interests, and in the towns and countries of their choice. If, for instance, the buyer prefers a contract of the f.o.b. type, he shall be free to purchase on these terms; if, on the other hand, he wishes to buy on a c. and f. basis (transport charges to be borne by the seller and insurance costs by the buyer) he shall be free to contract in that sense. If, finally, a buyer prefers a c.i.f. contract, he should be able to contract on these terms without infringing the laws of his country. The arguments put forward by the representatives of the International Chamber of Commerce and of the International Union of Marine Insurance, may be summed up as follows: the obligation existing in certain countries according to which importers must make their contracts on a c. and f. basis, causes extra cost for traders and supplementary formalities, delays and hazards for international trade. In general, the disadvantages would be as serious for buyers as for sellers, and the extra cost would be borne in the last resort by the importer. In the particular case when a buyer processes the imported product, the additional cost which he has to bear would weaken his competitive position and consequently reduce his chances of exporting the processed products. The disadvantages and costs referred to are as follows: A buyer who is accustomed to contract on a c.i.f. basis has not the same experience as exporters in questions of insurance, and he therefore often finds great difficulty in procuring exactly the indispensable cover for a risk he has been unable to estimate accurately. This may entail complaints on the part of buyers, should the premium charged be higher than the difference between the c.i.f. and c. and f. prices.

"Secondly, the seller, being deprived of the guarantee of an insurance contracted by him with companies which are known to him, runs a risk between the time when the goods pass beyond his control and that when he receives payment for his consignment. Under the circumstances, he has either to procure a financial guarantee before the departure of the goods in the form of letters of credit, or cash payment, or he has to contract a supplementary insurance to cover his own responsibility, since he no longer has control over the terms upon which his consignment of goods is insured. Further, delays may occur when shipment is held up until the insurance policy is concluded, and traders may therefore be compelled on account of delay, to apply for a fresh import licence or to repeat ab ovo the formalities for obtaining a letter of credit. Likewise, it may be necessary, in applying for a letter of credit, to supply information or guarantees concerning the insurance policy, and this may cause delays or extra costs for the business. Lastly, the splitting up of insurance markets resulting from regulations established by various governments may increase the cost of insurance, since the greater the number of risks insured, the greater the reduction in cost of insurance. Moreover, these regulations may require a large number of insurance policies. Whereas the policy contracted by the seller covers normally all transport from the place of manufacture to the warehouse of the importer, if the insurance is contracted by the importer, it may be necessary to take out an insurance covering the transport from the place of manufacture to the point of loading, an insurance for marine transport to be borne by the buyer, and an additional insurance by the seller with a company which would intervene should the insurance taken out by the buyer be inadequate to cover the seller's risks.

"It was obviously impossible for the representatives of the International Chamber of Commerce and the International Union of Marine Insurance to give even an approximate appraisal of the additional cost entailed for world trading by the regulations introduced by certain governments in the field of transport insurance. It is, however, interesting to note, as an indication that the representative of the International Chamber of Commerce considered that additional cost might be 1 per cent of the value of shipments coming under that régime.

"Another aspect of the problem which was pointed out by the representative of the International Union of Marine Insurance, referred to the practical difficulties which might arise when authorities in charge of foreign exchange control refuse to grant the necessary currency to pay the insurance policy premiums contracted abroad. This intervention of foreign exchange control authorities may greatly compromise equality of treatment between national and foreign companies, as a result of application of domestic legislation, and its impact on insurance. In this connexion, insurers fully realise that balance of payment difficulties may lead governments to intervene in that field and they do not intend to ask for privileged treatment. However, the representative of the International Union of Marine Insurance pointed out that

insurance costs, as compared with other items of expenditure, represented a much lower figure than transport and even banking costs, and that disbursement of currency for marine insurance represented a very small percentage of the amount required to regulate imports. In view of the low figure for insurance costs, it seemed to him that restrictive regulations could not bring about any appreciable easing of balance of payments for importing countries, the more so, as a proportion of a premium of an insurance taken out with a national company must in any case be disbursed in currency, since underwriter contracts have to be taken out.

"These, briefly summarized, are the various points which were considered during the interview between our Group this morning and the representatives of the International Chamber of Commerce and the International Union of Marine Insurance. In conclusion, I should like to say that on the whole, these representatives considered the solution proposed by the delegation of the United States would satisfy the parties they represent, and the proposed recommendation would, in their view, contribute to the solution of the problems which had led the International Chamber of Commerce to submit the question of discrimination in transport insurance, to the international organizations."