

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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DISCRIMINATION IN TRANSPORT INSURANCE

Addendum

Views and Suggestions by Governments etc.

In L/383 governments were requested to submit views and suggestions on the question of discrimination in transport insurance. In response to this request the Governments of Pakistan and Germany have sent statements, which are reproduced in Section I and II below. In addition, the International Union of Marine Insurance has supplied a memorandum discussing the effects of restrictions on marine insurance, which is reproduced in Section III.

I. Statement of 17 October by the Government of Pakistan

Importers in Pakistan are required to insure imports with companies registered in Pakistan. At present the number of foreign companies registered in Pakistan for marine insurance comes to fifty-five and it includes leading insurance companies from all parts of the world. There are also a number of indigenous insurance companies dealing in marine insurance. The importers are free to insure with a company of their own choice whether national or foreign, provided it is registered in Pakistan. This step to confine insurance to companies registered in Pakistan has been taken only to save foreign exchange. No such restriction exists on export trade. It will thus be observed that the facilities available for insurance for imports within the country are more than adequate and the requirement in force in Pakistan does not at all affect the flow of trade.

Pakistan is not in favour of any international action under auspices of the General Agreement on Tariffs and Trade in so far as this question is concerned.

II. Statement of 24 October by the Government of
the Federal Republic of Germany

On the basis of inquiries made, with respect to the discrimination in the field of transport insurance, among the economic circles concerned, the Federal Republic of Germany has ascertained the following:

The German exporter, in most cases where discriminating provisions of foreign States prevent him from carrying through c.i.f. exports, sees himself compelled to effect an additional protective insurance with a national insurance company. The premium of such an additional insurance amounts to about 50 per cent of the normal insurance premium. This protective insurance is, in general, considered to be necessary for the following reasons:

- (a) The German exporter runs the risk that his foreign customer is not or only insufficiently insured.
- (b) The discriminating countries often grant a restricted cover only. There are, for instance, only f.p.a. (free of particular average) insurances, whereas on the world market there exists, on principle, a w.a. (with average) cover. In this case the German exporter often has to insure the difference, above all in those cases where he has received a first instalment from the customer only.
- (c) The foreign insurance company often does not settle the damage as promptly as the German insurance companies, which the German exporter knows, do.
- (d) The transfer of the damages meets obstacles originating from foreign exchange regulations precisely in those countries which, for protectionist or balance-of-payments reasons, discriminate in the field of transport insurance.
- (e) The difficulties and the risk connected with legal action abroad must likewise be taken into consideration.

The rise in costs caused by these additional and protective insurances to the amount of about 50 per cent of the otherwise required premiums has a price-increasing effect and is disadvantageous not only to the German insurance industry, which loses the orders concerning shipment to discriminating countries, but simultaneously also to the foreign trade which by this rise in costs is forced to charge higher prices prejudicing its competitive position.

An exact numerical statement of these effects on the foreign trade is, for different reasons, practically impossible in the Federal Republic of Germany. The Federal Government therefore regrets not being able to submit exact figures in this respect.

The standpoint of the Federal Republic of Germany concerning the problem of discrimination in the field of transport insurance fully meets the pertinent decisions submitted to the CONTRACTING PARTIES by the International Union of Marine Insurance and the International Chamber of Commerce.

III. Memorandum transmitted on 1 September 1955
by the International Union of
Marine Insurance

It is a recognized fact that a number of governments have taken measures to restrict their residents in their choice of insurers when insuring the international transportation of goods. Official enquiries have shown that at present fourteen countries at least know some sort of legislative measures to that effect.

Whereas the reasons given by the responsible authorities for such restrictive practices vary, they must in fact be considered as being due to anything from currency restrictions to the desire to boost a national insurance market. However well-founded such measures may appear from one particular point of view, it often remains unrecognized that their effects on international trade are harmful. Traders engaged in international commerce require the services of Marine Insurance which, by their nature, are ineffective if they are not based on mutual trust, efficiency and goodwill. Any governmental interference with the relationship between trader and insurer is fraught with obvious dangers and its harmful effects can hardly be measured in terms of money. That this disturbance of the traditional relationship between trader and his insurers fills the former with grave concern is obvious from many communications received by insurance companies.

A well-known and important industrial concern in Switzerland wrote to their insurers "that their clients in Colombia and other South American countries are compelled to insure their imports with national companies. It is regrettable that the authorities in these countries interfere with the freedom of the partners in trade in an undesired manner. We would welcome if such discriminatory measures in the field of marine insurance were abolished and that the insured remained free with regard to the placing of his risks". A number of such complaints have been made, particularly with regard to the restrictions applied in the Argentine, Mexico, Pakistan and Indonesia. Frequently insurance companies are asked by their clients to recommend an insurance company with which they possibly entertain good relations in such a country. This is due to the lack of knowledge of the financial situation and the morality of a particular insurance market on the part of the trader and offers him a vague hope of help from his traditional insurer in case of difficulties.

Such difficulties were experienced e.g. by a large chemical concern when sending a consignment to Buenos Aires insured compulsorily in the Argentine. The consignment was damaged on the journey, the claim however was turned down by the insurance company on the grounds of insufficient packing. It is an

undisputed fact, however, that this firm has a wide experience in these matters and had never yet fallen short of its duties in this respect. The particular circumstances and the power of the Argentine monopoly gave them no opportunity of redress or a fair hearing.

It is evident that such restrictive practices force upon the traders additional risks with which they are ill equipped to deal. First of all they do not know their insurers any longer and, more important still, they have no access to insurance conditions and practices in far away countries. It is often difficult for them to receive payment for the goods and they justly fear that these difficulties will be even greater in case of payments for claims. A very striking example is that of a Swiss exporter who sent textiles to the Argentine. The conditions of the contract were: insurance placed with an Argentinian Insurance Company, payment in Swiss francs against commercial and consular debit notes and bill of lading. The sending arrived heavily pilfered in Genoa and could therefore not be forwarded. According to the terms of the contract, the Swiss exporter should have received payment, either from the consignee or his insurance company. All his efforts in this direction proved futile, although it was known that the consignee received the indemnity from the insurer, as the existing insurance and currency regulations made any recovery impossible.

Against such dangers, the traders cannot protect themselves otherwise than by taking out an insurance in their own favour, thereby duplicating the cover for a particular sending and also duplicating the costs.

It is often maintained that the insurance rates are higher in countries where the Companies are protected by a monopoly. This is evident from the experience of a large American manufacturer of pharmaceuticals who enjoyed an "All Risks" rate to the Argentine of $0.51\frac{3}{4}$ cents regardless of method of packing. Under the Argentine Law, the manufacturer can no longer insure in the United States shipments to its own plant in Argentina. Under the policy issued now in Argentina, the extent of cover is not as broad as was possible under the U.S. policy; and rates of premium vary from 0.75 cents to \$5.25 depending on extent of coverage and type of container. On goods transported by air, the Argentine rate is 0.80 cents compared to the American rate of 0.20 cents.

In the light of such business practices, it is hardly surprising that, according to a private letter, Colombia should have relaxed its discriminatory decree to permit use of American insurance on certain products which have a high loss frequency and are of little interest to Colombian insurance companies, e.g. plate glass and sanitary ware.

It is known, furthermore, that some countries use their exchange control machinery so as to restrict specifically the making of payments to foreign insurers in respect of transport insurance. The two following examples show the extremely small amount of dollar exchange required for the gross premium. In both instances, all costs except marine and war risk insurance were paid in US currency. It has to be borne in mind that out of these small premiums the insurer must pay all claims.

(a) Export of 380,000 bushels of corn, Baltimore to Europe

Cost at Chicago	1.4275 per bu.	\$ 542,450.00
Frnt. to Balto & elevator chgs.	.15 " "	57,000.00
Outturn Insurance	.015 " "	5,700.00
Ocean Freight	.2616 " "	99,408.00
	<u>1.8541 " "</u>	<u>\$ 704,558.00</u>

Voyage Premium (if insured
in American market) on \$704,558
Marine Risks -

	\$ 697.51
	352.28
	<u>\$ 1,049.79</u> or

.0027626 per bu.

(b) Export of 10,000 tons of coal to Europe

Cost at mine	\$5.00 per ton	\$ 50,000.00
R.R. frt.	4.20 " "	42,000.00
Trimming	.35 " "	3,500.00
Testing		120.00
Forwarding charges		250.00
Ocean freight	10.00 " "	100,000.00
		<u>\$ 195,870.00</u>

Voyage Premium (if insured in American
market) on \$195,870
Marine Risks
War, Strikes & Riots

	\$ 293.80
	97.94
	<u>\$ 391.74</u> or

.039174 per ton.

These few but very real examples show the importance of the quest for freedom in Marine Insurance. They prove furthermore that the damage done to trade is unmeasurable. Restrictive practices cause personal hardship, destroy good-will and old-established relationship, erect barriers between trading nations, increase the costs ultimately borne by the consumer and all that for very dubious and uneconomical advantages quite out of proportion to the harm done.

