

GENERAL AGREEMENT ON TARIFFS AND TRADE

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DISCRIMINATION IN TRANSPORT INSURANCE

Statement by the Representative of the International Chamber of Commerce

The following is a summary of the statement delivered by Mr. Harrold, representing the International Chamber of Commerce, at the meeting of the Special Group on 16 November 1955:

Buyers and sellers should be free to settle their transport insurance in the terms best suited to their requirements. Examples given to the International Chamber of Commerce show that on imposition of restrictions in these countries, the rate of insurance has increased by 200 or 300 per cent. Moreover, owing to the uncertainty of the seller about the protection which the buyer has provided, he frequently takes out additional "contingency" insurance costing about 50 per cent of the insurance that would previously have been paid.

Examples of the difficulties which have been caused to traders are as follows:

1. The buyer who has been accustomed to purchasing on c.i.f. terms and hence having his insurance done for him now has to arrange insurance himself. In many cases he has no expert knowledge of how to set about this and either he does not insure at all or does not insure properly or does not get as good cover as before, and may have to pay more. As an example I may mention that when one country adopted this type of legislation, the agent of a firm belonging to the ICC wrote as follows:

"You cannot imagine how many troubles this caused us and our clients, we have already started to receive claims from different firms. Some of them tell us that the discount you made (that is the reduction due to removing the insurance charge hitherto paid on a c.i.f. sale) is not sufficient to cover the insurance expenses and we will have to pay the difference to each one of our clients, naturally for your account."

(We do not know what the firm had to say when thus told they had to foot the bill.)

2. The seller who has been forced to change his terms from c.i.f. to c. & f. is immediately placed in a difficulty. He has a definite interest in the goods until the buyer pays him for them. He may have been accustomed to billing this customer cash against documents on arrival or on thirty days or more credit. As

the insurance is no longer being placed by himself he does not in fact know whether the goods have been insured or not or whether the terms of insurance cover him to the extent that he considers necessary. One firm, under these circumstances, has insisted that payment should be by letter of credit so that they have their money before the ship sails and so the risk to the cargo falls on the buyer himself who should have insured it himself. This firm is still willing to give credit terms but under these conditions of insurance will not do it. They are fortunate in being able to get such terms but it is a retrograde development. Others have continued as before and have had to take out contingency insurance against failure of the buyer to insure or insure sufficiently.

3. The change in the smooth, well-established method of trading on c.i.f. terms makes it more difficult to conclude orders. Yet one more overseas action by the buyer is necessary and if omitted the order is held over until completed. By this time the import licence or letter of credit or both may have expired.

4. While the effecting of insurance is no concern of the seller under these conditions, he gets involved in some cases, by conditions of the letter of credit that he is to advise some foreign insurance company within a stipulated number of days of the sailing of a ship that the goods are on board this ship. With all the difficulties about ships sailing, turn-round and so forth this is again a difficulty and if it cannot be proved satisfactorily to the bank that this requirement has been carried out, the bank refuses to pay the money. By this time the goods are on the ship and the ship is on the high seas and the question is, who if anyone has insured the cargo, and the exporter has not been paid either.

5. Long-established exporters or manufacturers are experts in the particular goods which they export. They know the type of troubles likely to arise, over the years they have arranged cover which is best suited to give the best protection. The importer who has hitherto been buying on c.i.f. terms may not have such knowledge. The insurance company with which he has to deal perhaps only deals in this particular commodity for the one importer, it has not got and cannot have the vast experience of the insurance company which has been dealing with the world exports of the manufacturer.

6. All insurance is a spreading of the risk. The wider the spread the cheaper the cost. Individual countries confining insurance on all commodities imported to their own insurance companies cannot hope to get the benefit of this wide coverage. A country where the risk is considered to be bad cannot hope to get the benefit of averaging with other countries where the risk is much better.

7. At present a manufacturer selling c.i.f. is usually covered from his works to his customer's warehouse by one insurance policy. If the customer has to buy c. & f. then there will be at least three if not more policies necessary. The buyer naturally only insures from the time the goods are on board the ship, so the seller or manufacturer has to insure the goods under a separate policy from his works to the ship, then if he is uncertain about the cover which the

buyer will provide and he has not received his money before the ship sails, he will probably have to take out a contingency insurance. There are three policies instead of one and it is possible the buyer will have to have a separate policy for internal transport from the ship to his warehouse, making four policies in all where one sufficed before.

8. Difficulties occur over the remittance of claims which are paid in local currency instead of in sterling. For example, and this is an instance which actually occurred, one hundred drums of a commodity were shipped against an import licence and exchange licence for this quantity. Ninety drums only arrived, ten were jettisoned or otherwise lost on the voyage. On arrival the Customs endorsed the import licence to the effect that only ninety drums were imported, and the exchange authorities only provided foreign currency for this amount. A claim was made and paid promptly by the local insurance company in local currency but interminable efforts and delays occurred before the foreign currency was provided to recompense the exporter.

9. There are in addition of course special goods which by their very nature cannot be effectively covered by insurance in the importing country. As mentioned already, there is the difficulty of seeing that the buyer is informed in sufficient time that the goods are on the ship or will be on the ship so that he can cover them by insurance. It is difficult enough as already mentioned in ordinary cases but in Sweden, where large quantities of staple goods especially wood and wood pulp are shipped from small ports in the north it is necessary on account of the conditions there for the seller to arrange the shipments himself. It is not practicable to advise the buyer in time for him to cover the shipment because of such obstacles to regular shipping as ice and inadequacy of wharves for certain ships.