CARGO INSURANCE

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'scargo) 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 to meet the cargo owner's contribution and facilitate release of the cargo.

Kesco GROUP INC.

WWW.KESCOLOGISTICS.COM 20 East Sunrise Highway, Suite 308 | Valley Stream, NY 11581 | 516.341.7310

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