Protect your financial interests from the surge in piracy

It's a dangerous time for shipping – especially in pirate-infested waters, as vessel attacks continue and ransoms in the millions of dollars becomes more common.

The world heaved a sigh of relief when Captain Richard Phillips of the U.S. flagged Maersk Alabama was rescued in 2009, but violent attacks are still on the rise. Piracy incidents have doubled in recent years, attributed largely to anarchy and economic deprivation in Somalia.

Each year, about 16,000 ships navigate through the Gulf of Aden, which, as the southern gateway to the Suez Canal, is one of the most important trade routes in the world. Ships mostly transport oil from the Middle East and goods from Asia to Europe and North America. Changing routes would add weeks of travel time and increase fuel consumption, driving up the cost of shipping.

GENERAL AVERAGE

Piracy also brings the threat of General Average, a complex shipping clause incorporated into most ocean bills of lading. General Average is used when a voluntary sacrifice is necessary to save a vessel, its crew and the cargo from a common peril. When a General Average is declared, the value that a shipper's cargo bears to the total value of all cargo onboard, as well as the vessel itself, must be made in order to gain release of said cargo upon arrival.

A vessel was en route to India when it was attacked by pirates in the Gulf of Aden. The pirates demanded $50 million to release the captured crew and allow the ship to continue on its voyage.

In this situation, assume that the value of the vessel was $75 million and the value of the cargo onboard was $135 million, for a total value of $210 million. Should the ship owners pay the $50 million ransom, 23.8 percent of the voyage would suffer a loss ($50 million/$210 million).

Each cargo owner would be forced to contribute 23.8 percent of the value of their cargo before it would be released.

If cargo is insured, the marine cargo insurer will post the General Average bond and guarantee to meet the cargo owner's contribution and facilitate release of the cargo. If the cargo is not insured, a cash deposit, bank guarantee or bond must be posted by the shipper in order to gain release of their cargo.

CARGO INSURANCE

Piracy is one of the many reasons shippers should insure their cargo while in transit. Cargo Insurance is the oldest form of insurance, dating back to the 1600s when piracy was also a common event. Our broad Cargo Insurance program guards your goods from the risks of transit with key coverage clauses to include theft and/or hijacking of an entire shipment.

For more information, contact your local UTC Overseas Inc. representative.

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