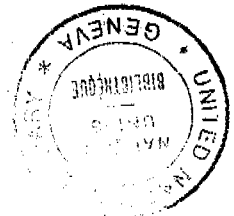


Cargo Loss Prevention - The Egyptian Experience

by Mr. Fathy Youssef



Introduction

Insurance industry is considered as the main basis of economic status in all nations. It therefore follows the improvement of economic and social activities around the world. Such improvement made insurance covers wider in types and quantity. New risks were introduced and insurance had to study them to find the adequate conditions and premiums.

Actually, aspects of insurance industry are not restricted to the issue of insurance covers and the collection of premiums, but it essentially aims at minimization of loss: by allowing rebates of premiums in case of precautions taken for loss prevention, by giving advice on the best ways for loss prevention, and by direct intervention to minimize the consequential losses.

Marine cargo insurance represents an important part in insurance activities. This is a brief report on the measures undertaken by the Egyptian Insurance Sector in order to minimize cargo losses over a period of more than ten years. Such measures gave the best results upon different types of insured goods, in spite of the hard conditions in which this sector operates. This is what may be called, as mentioned before, a direct intervention from insurers to minimize consequential losses.

1- Efforts deployed for loss minimization on marine cargo
(Origin - Institution of specialized Office)

Imported and exported goods, insured or not, are exposed to great hazards during the different stages of loading, transport, discharge, until arrival at the final destination at consignee's warehouse.

Risk are various and more or less important, but indirectly they have an adverse influence on the national economy.

The importance of loss prevention is increasing specially in the developing countries, which are struggling in a great battle for development to achieve its goals. Their success in this achievement depends on their capability to mobilize all their efforts in this battle and in the best way of investing them.

As the Insurance Sector - through the Egyptian Insurance Companies - is bearing directly losses due to damage and shortage sustained by the goods

during the various stages of transport and handling, and therefore these losses as influence the national economy, it is quite understandable that this Sector tries to face this problem by finding out its best practical solution.

Hence, a committee was formed by the Egyptian Insurance Organization to study the matter. This study revealed the importance of setting up a non-profit-making body to devote its entire efforts to the investigation, prevention and minimization of losses in Egyptian ports. This led to the signature of an agreement among the Egyptian Insurance Companies on June 17, 1967, whereby the Cargo Supervision & Surveying Office of A.R.E. was established. The Office started its functions on January 15, 1968.

As a result of the success achieved in this field, for which aim it was established, it became necessary to strengthen it, to give it all support required to accomplish its functions in a way to preserve its autonomy and its independent structure. Therefore, the Ministry of Insurance, issued Order N° 47 in 1973 establishing a joint office between insurance registered companies in the country with the name of CARGO SUPERVISION & SURVEYING OF A.R.E. . This order stipulated that the Office maintains its independent entity.

A statute was drawn up to regulate the Office's functions, purposes and the way of its administration and finance.

Delegates from Egyptian Insurance and Reinsurance Companies and Insurance Organization are on the Board of Directors of the Office. Insurance companies finance the Office, and bear its expenses with a proportion taken out of marine insurance premiums.

By the issue of Republican Decree N° 221 in 1976, the Egyptian Insurance Organization was reinstated and among its competence was included the supervision of insurance federations and pools, as well as the Cargo Supervision & Surveying Office of A.R.E.. The decree stipulates that the General Manager of the Office, in his professional quality is to be also a member of the board of the Organization.

No doubt, an office for loss prevention with good possibilities to function can, in the long run, achieve the following aims :

1. Reduction of marine insurance premiums
2. Improvement of reinsurance conditions
3. Reduction of cost of imported goods
4. Prompt delivery of goods in good condition to consignees
5. Quick delivery of production equipment and commodities, in due quantity and time.

In our opinion, loss minimization is not the responsibility of a sole party, but all parties concerned have to co-operate in all stages of the voyage and precautions must be taken all through the transit, as every move of the goods involves a peril which may result in a loss ; all parties have to take all possible precautions to protect the goods in transit.

Naturally, there are some risks which cannot be prevented, such as acts of God, sinking, fire, etc., but it remains possible to minimize them. At the same time most of the risks may also be prevented by taking the necessary steps and precautions.

Loss prevention must therefore be considered as an activity incorporated into all stages of the transport of goods, and not as an independent part, beginning only after the incident. The establishment of the Office should not be construed as exempting all other parties from taking all necessary measures to minimize losses ; otherwise, the Office would have to bear the full brunt of loss prevention action, which certainly was not the intention when the Office was established.

2- Improvement of activities of the loss prevention office in A.R.E.
Difficulties met during the fulfilment of its duties

The Ministerial Order issued to incorporate the CARGO SUPERVISION & SURVEYING OFFICE OF A.R.E. specified the scope of its activities as follows :

"The Office is to supervise and survey imported and exported goods in the ports of A.R.E. during loading, unloading and storage within customs warehouses or in annex customs area, and to attend, in co-operation with other authorities, to all formalities with a view to preventing or minimizing cargo losses".

The functions of the Office can be summarized as following :

1. To follow the ships' arrival at and departure from the Egyptian ports, to record the consignments listed on the manifest of every ship and to note the details of imported and exported goods.
2. To supervise the procedure of loading and discharge of the goods to and from the ships or floating barges or pontoons; to record all damages; and, to take all necessary steps for their safety and protection.
3. To supervise the goods during transport from barges or quays up to customs warehouses and annexed customs areas until they are stored; to attend to their disposal and to record their condition at every stage; and, to take the necessary steps for the safety of the goods including repairing the damaged packages or reconditioning the goods.

4. To take the necessary and suitable procedure for issuing the letter of reserves, within the legal time-limit, against the party responsible for the loss, on behalf of whom it may concern, without prejudicing their legal rights.
5. To inform promptly the insurance companies of any damage caused to the insured goods and to prepare the relative detailed survey report, describing shortage and loss and their causes, after having made all necessary recordings at every stage of transport from time of arrival up to the time of clearance from customs.
6. To resort to scientific and technical expertise in the different specialisations, to conduct studies and research relative to the Office's activities.
7. To prepare technical studies based on the actual handling processes in order to discover the recurring causes of damage to the goods, in order to take the necessary measures to minimize them.

In addition to the above-mentioned activities, the Office also acts as Claim's Agents for 230 Arab and foreign insurance companies . The Office carries out surveys of goods insured on behalf of these companies, upon application from consignees in case of loss or damage to the goods, and issues the relative survey reports which constitute the basis for the settlement of claims.

The Office also acts as claims settling agents for some of these companies, by preparing and effecting settlement of the claims.

We must also mention that, in several cases where the Office was specially requested by insurers abroad to supervise the goods from the time of discharge from the ships until final delivery to consignees, the results obtained were excellent: either no loss at all, or a very reduced loss with all rights and responsibility duly reserved. The Office received several letters of congratulations and encouragement from insurers satisfied with our efforts.

An example of the Office's activities are surveys at consignees' final stores and the issuing of relative reports; surveys are carried out for entire shipments of steel pipes and equipment destined to the SUMED (Suez - Mediterranean) Pipeline Project from discharge at port up to the sites. For these surveys the Office has assigned a representative at the suppliers' factory and the port of loading to ascertain any damage and its causes.

Owing to its experience in protecting the goods, the Office lends its services to navigation companies and consignees for repair and replacement of the damaged packing, in order to minimize the loss.

At first, when the Office was established it was to supervise shipments insured with Egyptian insurance companies, since these alone were to bear all its expenses, but in practice this attitude soon proved impossible, because the Office found it difficult to determine at time of discharge whether the goods arriving were imported on FOB or CIF terms. Therefore all consignments were supervised irrespective of where the insurance cover was effected.. However, this increases enormously the work load of the Office. The Office cannot supervise all the goods, which is beyond all its possibilities and is also entailing overhead expenses which cannot be borne by the insurance sector alone. A remedy for this problem must be found.

The following figures show the number of ships from which goods were discharged at Alexandria in 1977, compared with the year 1970 :

<u>Year</u>	<u>Number of ship</u>	<u>Number of consignments</u>	<u>Cargo-Tons</u>
1970	1606	51404	3'351'104.-
1977	2458	59152	10'124'190.-

These figures reflect the continuous rise in volume of the work accomplished by the Office.

The Office's activities were not restricted to the port of Alexandria only, but they were extended to include Safaga port as from August 12, 1969, then Port Said as from the end of the year 1975, when the Suez Canal was reopened, and at last the port of Suez as from March 1977.

The Office's representatives on quays supervise imported goods and, due to the difficulties of covering all ships at the same time, they pay special attention to insured consignments which may be easily identified through the insurance policies already submitted to them, or through knowledge gained from experience of the kinds of goods or the individual consignees. They also give special attention to apparently damaged goods, even when their insurance is unknown to them.

Supervision consists of :

1. Stating the condition of goods by different means (joint surveys with carriers, customs, stevedores - Police process-Verbals).
2. Giving preliminary report on each case
3. Repairing broken, spilling or leaking containers (cases - bags - drums, etc.) or reconditioning contents of damaged packages into new packings to minimize losses.

4. Sending letters of protest to the responsible parties within 48 hours from discharge of goods and delivery to customs stores.
5. Sending the preliminary advice of loss to local insurance companies within 20 days from the end of discharge, so that they can institute the necessary legal action against carriers in due time. Such procedures enable the insurance companies to take the appropriate recourse action against carriers, and to be indemnified as according to the Egyptian Law the recourse actin must be presented to the Law Court within 31 days from the date of sending a protest, which must be also sent within 48 hours from the date of discharge and delivery in customs warehouses.
6. Attending final survey of damaged goods in customs warehouses jointly with customs Officials before disposal, where needed repairing broken or spilling containers, up to final delivery.

After disposal of the goods, a final survey report is issued. Such a report is considered an essential document in claim settlements.

The following figures show the number of letters of protest, preliminary loss advices and final reports issued as a result of supervision of goods in 1977 compared with the year 1970 :

	<u>1970</u>	<u>1977</u>
Letters of protest	15 908	26 237
Preliminary loss advice	6 540	11 114
Supervision	5 321	8 713

These figures do not include survey reports issued for foreign insurance companies or reports about final surveys at customers' site and reports about surveyed goods found in good condition on release from customs areas.

The quantity of work in the Office depends basically upon the spreading of insurance cover granted by the Egyptian insurance comapnies. Marine premiums increased 34,7% in 1977 compared to 1970 which reflect a great increase in the volume of work performed by the Office.

As the workload increased, so the Office had to increase its labour force. In 1970 it had 107 employees; this number was increased to 237 in 1977. It had also contributed to the improvement of conditions of handling of goods generalizing the use of modern methods and equipment for packing, repairing, binding, steel strapping, using, ropes, glue, etc.. It also organized special training courses for its personnel.

3. Difficulties encountered by the Office in performing its functions

From the insurance industry's point of view, the establishment of the Office was a natural development, since it had to bear the cost of shortages, losses and damage to the goods. Direct intervention was necessary for loss prevention. On the other hand, the organizations operating in the port, responsible for the handing of goods, took a hostile position towards the Office, fearing that the Office would control them and then make them liable for all losses and damages, whereas in fact they stood to benefit from the loss prevention policy adopted by the Office.

This was the beginning of the troubles and difficulties encountered by the Office. To perform its functions, the Office had to overcome these difficulties with patience and wisdom in order to gain the mutual trust and understanding of other parties in the port, in order to improve its performance in the general interest.

The Office had to establish co-operation with these parties, and dispel any fear of partiality due to a conflict of interests, otherwise it could not fulfil its responsibility of supervising the goods and preventing losses, without harmonious and daily contact with all parties in the port. In this context the Office's good relationship with the other parties constitutes an important and fundamental achievement.

In spite of these efforts, we cannot pretend that everything is running smoothly and properly; there is still a big difference between the reality and our wishes. We do hope that this situation will improve in the near future. We think that this will be possible only if the Office's responsibilities are defined more realistically, considering its work - as we said before - as an integral part of the process of cargo handling which must be undertaken by all parties concerned.

Here are the causes of difficulties met by the Office:

- a) Misinterpretation of the nature of the mission of the Office
- b) The establishment of the Office at the beginning was merely an agreement between insurance companies with no official set up.
- c) The Office was established to safeguard the interests of insurance companies only, by determining the party responsible for the damages sustained by the goods ; it is therefore understandable that organizations operating in the port such as navigation companies, loading and discharging company and bonded warehouse company, who are most likely to be at fault are reluctant to co-operate with the Office.

The following are examples of the difficulties which have been encountered by the Office in performing its duties :

- i) The refusal of the navigation companies to supply the Office with copies of ships' manifests. The Office was therefore unable to ascertain the kind of quantities of the shipments and the names of consignees.
- ii) The Office was not allowed to participate in the weighing and making the inventory of the damaged parcels in customs warehouses.
- iii) The refusal of shipping agencies to make declarations of goods in apparently damaged condition.
- iv) Non-admission of the Office's delegate on board ship to supervise discharge of goods and repair of damaged packing.
- v) Non-compliance of stevedores with our supervisors' remarks for adequate means for unloading goods.
- vi) Non-admission of the Office's delegates to attend storage and study documents in customs warehouses.
- vii) Non-co-operation of customs officials with the Office in declaring loss or damage due to improper storage and stowage.

The problems met by the Office were reported by the General Insurance Organization to the Ministry of Insurance which attempted to solve them and gave its full support to the Office to perform its functions in serving the insurance sector and the national economy.

The following results were attained :

1. On June 1973, as stated before, the Ministry of Insurance issued an order establishing the Office as a joint venture between Egyptian insurance companies under the name of "Cargo Supervision & Surveying Office of A.R.E.", with an independent legal entity.
2. The Ministry of Maritime Transport, in February 1974, convened a meeting, presided over by the Chairman of the General Organization of the Port of Alexandria, at which all organizations operating in the port were represented, together with representatives from the Office, the Ministry of Maritime Transport and the Ministry of Insurance, to discuss the methods which would enable the Office to perform its activities successfully. The following decisions were adopted:
 - a) The Office Manager should participate in discussions of the Administration Board of the General Organization of the Alexandria Port when dealing with questions pertaining to the Office's activities in the port. This operating in the port, in view of the fact that their

representatives are members of the said Board.

- b) The Office should receive copies of cargo manifests through Customs Administration.
- c) Representatives of the Office must be present with representatives from customs warehouses and navigation companies, to sign and obtain copies of Inventory Sheets when inspecting and weighing damaged parcels.
- d) Representatives of the Office have ~~the right to go on board~~ ^{board} ships at any time, and have free access to the various customs warehouses.

In addition, in order to secure the confidence of the other parties operating in the port, the Office offers assistance to solve the problems of the daily work and the difficulties facing these parties, even if this assistance is outside the scope of its duties.

As a result of this attitude :

1. The Office took part in a special Committee, set up in 1975 by Ministerial Decree, to eliminate congestion of goods in the ports and the Office had played an important role in this campaign, greatly appreciated by the Marine Transport Minister and the competent authorities.
2. The special Committee was transformed into a permanent Committee to regulate the daily work in the port and to solve problems occurring by holding weekly meetings to this effect; the Office is still a member of this Committee.
3. The Office was invited to co-operate with various control organizations to study the work problems at the port and to suggest solutions to these problems. This co-operation ^{which} lead to a good understanding of the role of the Office as a result of these organizations wanted to consolidate and to strengthen the Office.
4. Various port organizations approved and adopted the recommendations made by the Office for safeguarding the goods, such as the presence of the Office's delegates during customs officials' inspection of the condition of damaged goods due to faulty storage, stowage or open-air stowage and storage.
5. Often, organizations operating in the port consult the Office about problems and disputes among themselves.
6. A Committee has been formed by the port Organization and directed by the Office to trace goods left in the open-air and request their removal by the consignees. Unclaimed goods are consigned to the Government Sales Commission for sale by public auction and the proceeds are deposited in the State's Account.

This Committee also enables the Office to find goods declared lost by shipping companies and for which claims are reported to insurance companies.

The short time-limit afforded by the Egyptian law for filing a claim against the carrier causes much trouble to the insurance companies and since 1970 they are trying hard to obtain a legal extension of the time-limit to one year, as in the Brussels Convention. It is hoped this will be done in conjunction with promulgation of the new commercial maritime law now being drafted.

The question now is considering all these difficulties, has the Office managed to accomplish its functions? The answer to this may be given by the insurance companies which certainly realized benefits through the establishment of the Office and the fulfilment of its functions.

No doubt, the physical presence of the delegates of the Office in the ports and its supervision of goods in the absence of the consignees greatly contributed to minimizing losses. Our assignment can be compared with a police office in an area where many accidents occur, obviously only the existence of our control results in avoiding accidents or at least decreasing them.

Our Office also set up research teams consisting of people with a wide experience in carrying out research, studies and statistics on different kinds of goods, recurring shortages and damages. These studies are of a great help to insurance companies to adjust their conditions and premiums rates.

These studies, were of help in respect of various goods, such as bulk sulphur, insecticides, mineral oil, etc..

The Office is also concerned with the types of goods which need special loss prevention actions, such as :

Insecticides : The damaged drums, barrels and tins are transported by the Office to a specialized factory for reconditioning and then delivered to consignees in sound condition. Statistics show that losses for this type of goods have been reduced from 0,5% to 0,1%.

Tea : The salvaged quantities of tea from the damaged cases are cleaned, repacked, inspected by the food control and delivered to consignees in an adequate condition. Over the past 4 years the salvaged quantity of tea amounted to the value of L.E. 250'000.

Coffee : The same procedure is adopted with respect to coffee, so that the salvaged quantities of coffee in the same period amounted to the value of L.E. 37'000.-

These are some examples of the efforts deployed by the Office to minimize losses on cargoes, to the benefit of insurance companies. In the meantime we cannot pretend that we achieved all that we wished, but we are quite convinced that when the problems of the Office are solved it will reach its goals in the proper way.

Finally, we can say that every experience has its positive and negative aspects ; the final results, however, show new additions to the experience, strengthen it, and give it new impetus to realize its scope.

Before closing, I sincerely wish that UNCTAD with all its supporters will extend all their assistance and help to all parties interested in the establishment and organization of such Offices for Cargo Loss Prevention in all developing countries, also in obtaining for them the co-operation of all the Offices already operating successfully in the world, and, last but not least, in organizing special training courses and in granting scholarships for the education of the people directly involved in the mission of Cargo Loss Prevention.

I now wish you all continued progress and success in your Marine Cargo Insurance activities.