

CMI GUIDELINES RELATING TO GENERAL AVERAGE

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CMI GUIDELINES RELATING TO GENERAL AVERAGE

INTRODUCTION

General average is an internationally recognised maritime system for sharing certain types of loss and expense between ship and cargo interests in the event of a casualty during a voyage. The assessment of allowable expenses is carried out by an independent professional called an average adjuster, who then divides the total general average amount in proportion to the value of all property that has been saved and reaches destination, in a final adjustment report.

The preparation of the final adjustment usually takes some time after the voyage is completed. Therefore, it is necessary for the concerned in cargo to provide written security in which they undertake to ultimately pay whatever contribution is legally and properly due from them, subject to any contractual provisions.

This process is referred to as a general average security collection. It should be noted that where a professional salvor has been engaged to place a ship and her cargo in safety, additional security may be requested in relation to the value of their services.

Effect of the CMI Guidelines

These guidelines are prepared for commercial parties to assist their understanding of the practice and basic principles of general average. They do not form part of the York-Antwerp Rules; they are not binding and are not intended to over-ride or alter in any way the provisions of the York-Antwerp Rules, the contracts of carriage or any governing law.

Review and amendment

The first edition of the CMI Guidelines was adopted by the plenary session of the 42nd International Conference of CMI in New York, May 2016, and ultimately approved by the Assembly of CMI.

In order to monitor the working and effectiveness of the CMI Guidelines, and to recommend changes to the Guidelines as circumstances dictate (which shall be submitted to the Assembly of CMI for approval), a Standing Committee was constituted to consist of:

- A chairman nominated by the Assembly of CMI
- A representative nominated by the International Chamber of Shipping
- A representative nominated by the International Union of Marine Insurance
- Five additional members nominated by the Assembly of CMI

The Standing Committee was later extended by the CMI Executive Committee and currently comprises eleven members.

The Standing Committee reviewed the Guidelines and drafted wordings for general average security forms. Approval of the drafts was obtained from ICS, and IUMI. The present, second edition of the guidelines was adopted at the Assembly of CMI [Insert month and year]

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Cargo interests will receive detailed communications from the appointed average adjuster that need to be reviewed carefully and followed up promptly. This section includes a brief summary of the average adjusters' role following a casualty involving general average and/or salvage.

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6 AN OVERVIEW OF SALVAGE UNDER LLOYDS OPEN FORM

Marine casualties may involve the engagement of salvors to assist ship and cargo and a variety of types of contract may be used. With the more serious casualties Lloyd's Open Form (LOF) of salvage agreement is often used and this section provides a brief overview of LOF.

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CMI GUIDELINES RELATING TO GENERAL AVERAGE

1 AN OVERVIEW OF GENERAL AVERAGE

1.1 Background

The principle of general average has its origin in the earliest days of maritime trade, and is based on simple equity. **For example**, if one merchant's cargo is jettisoned to save the ship and the rest of the cargo, the shipowner and other cargo interests would all contribute to make good the value of the jettisoned cargo **to its owner**. The word "average" is a medieval term meaning a "loss". Thus a "general" average involves all the interests on a voyage, whereas a "particular" average affects only one interest. As the doctrine developed various types of losses were added to that of jettison; perhaps the most important step was the recognition that expenditure of money was in principle no different from the sacrifice of property, if it was incurred in similar circumstances and for the same purpose.

General average varied in its development in the different leading maritime countries, so that by the latter part of the 19th century substantial differences existed in law and practice throughout the world. In view of the international character of shipping the disadvantages of this were obvious, and there began a series of attempts to obtain international uniformity. An International Conference held in York in 1864 produced the York Rules, which were revised at Antwerp in 1877 to become the first set of York-Antwerp Rules.

In a modern context, as well as continuing to provide an equitable remedy when property is sacrificed for the common good, the principles of general average, as now embodied in the York-Antwerp Rules, also continue to perform a useful function in helping to define important borders that lie between:

- Matters that form part of the shipowners' reasonable obligations to carry out the contracted voyage and those losses and expenses that arise in exceptional circumstances.
- Property and liability insurers as their differing responsibilities meet and sometimes merge, in the context of a serious casualty.

Both of these difficult areas benefit from the reservoir of established law and practice that general average provides, helping to secure a degree of certainty that is always the objective of commercial interests.

It is important to appreciate that the York-Antwerp Rules do not have the status of an international convention. They take effect only by being incorporated into contracts of carriage. The Rules are updated periodically under the auspices of Comité Maritime International, which is made up of national Maritime Law Associations.

Rule A of the York-Antwerp Rules defines a general average act as follows:

"There is a general average act when, and only when, any extraordinary sacrifice or expenditure is intentionally and reasonably made or incurred for the common safety for the purpose of preserving from peril the property involved in a common maritime adventure."

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AN OVERVIEW OF GENERAL AVERAGE (continued)

1.2 York-Antwerp Rules

The York-Antwerp Rules consist of lettered rules (A-G) and 23 numbered rules. The lettered rules set out various broad principles as to what constitutes general average; the numbered rules deal with specific instances of sacrifice and expenditure and set out detailed guidelines concerning allowances etc.

Broadly speaking, the York-Antwerp Rules have recognised two main types of allowance:

- “Common safety” allowances: sacrifice of property (such as flooding a cargo hold to fight a fire) or expenditure (such as salvage or lightening a vessel) that is made or incurred while the ship and cargo were actually in the grip of peril.
- “Common benefit” allowances: once a vessel is at a port of refuge, expenses necessary to enable the ship to resume the voyage safely (but not the cost of repairing accidental damage to the ship) for example, the cost of discharging, storing and reloading cargo as necessary to carry out repairs, port charges, and wages etc. during detention for repairs and outward port charges.

The York-Antwerp Rules are prefaced by a Rule of Interpretation which gives priority to the numbered rules when there is a conflict with the lettered rules. For example, Rule C excludes losses due to delay but Rule XI says that certain detention expenses at a port of refuge (e.g. port charges, wages and maintenance) can be allowed; Rule XI takes priority over the lettered Rule C and such expenses can therefore be allowed.

Since 1994, the York-Antwerp Rules have included a Rule Paramount after the Rule of Interpretation, which states as follows:

“Rule Paramount In no case shall there be any allowance for sacrifice or expenditure unless reasonably made or incurred.”

The burden of proof lies on the party claiming in general average to prove that both the general average act and the amount of any allowance are reasonable. It is suggested that in applying this rule there can be no absolute standard of “reasonableness” and that a situation must be judged on the particular facts prevailing at the time and place of the incident.

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AN OVERVIEW OF GENERAL AVERAGE (continued)

1.3 General Average events

The following are simple examples of potential general average situations:

Casualty	Type of sacrifice or expenditure
<i>Grounding:</i>	<ul style="list-style-type: none">• Damage to vessel and machinery through efforts to refloat.• Loss of or damage to cargo through jettison or lightening of the vessel.• Cost of storing and reloading any cargo so discharged.• Port of refuge expenses.
<i>Fire:</i>	<ul style="list-style-type: none">• Expenses incurred to extinguish the fire.• Damage to ship or cargo due to efforts to extinguish the fire.• Port of refuge expenses.
<i>Shifting of cargo in heavy weather:</i>	<ul style="list-style-type: none">• Jettison of cargo.• Port of refuge expenses.
<i>Heavy weather, collision, machinery breakdown, or other accident involving damage to ship and resort to or detention at a port.</i>	<ul style="list-style-type: none">• Port of refuge expenses.• Towage
<i>General</i>	<ul style="list-style-type: none">• Payments relating to salvage may also be allowed as general average in any of the above circumstances.

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AN OVERVIEW OF GENERAL AVERAGE (continued)

1.4 Adjustment of General Average

The basic principles are:

1.4.1 Property at risk

Generally, all the property that is involved in the voyage (or “common maritime adventure”) and is at risk at the time of the general average act is required to contribute to the general average losses and expenses. The contribution is based on a pro rata division according to the value of that property at the port where the voyage ends.

1.4.2 Contributory values

The sharing of general average sacrifices and expenses is achieved by a pro rata division over what the York-Antwerp Rules refer to as “Contributory Values”.

The basis for calculation of contributory values and general average losses is the value of the property to its owner at the termination of the voyage. However, in relation to cargo this value is based on the commercial invoices.

Expenses incurred in respect of the property after the general average act (other than those which are allowed in general average) must be deducted in arriving at the contributory value. This ensures that property contributes according to the actual net benefit it has received, by deducting the expenses it has had to bear to realise the benefit of getting the property at destination.

Since values are assessed as at the end of the voyage, it also follows that the amount of contribution may be varied by further loss or damage to the property between the time of the general average act and the arrival at destination. For example, if the property is totally lost due to a subsequent accident it will have no contributory value and will not contribute to the general average.

1.4.3 Termination of the voyage

Normally, the “common maritime adventure” is considered to be terminated on completion of discharge of cargo at the port of destination. If there is an abandonment of the voyage at an intermediate port then the adventure terminates at that port. If, because of a casualty, the whole cargo is forwarded from an intermediate port by another vessel the cost of forwarding may be allowable as general average, subject to criteria set out in Rules F and G of the York-Antwerp Rules.

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AN OVERVIEW OF GENERAL AVERAGE (continued)

1.4.4 Equality of contribution

Equality of contribution must be maintained between the owner of the property sacrificed and the owner of the property saved. In practice this is achieved by the device of adding to the contributory values of property lost or damaged by general average sacrifice the amount allowed (or “made good”) in general average in respect of that sacrifice. If this were not done the owner of jettisoned cargo would receive benefit in the form of money from the general average for loss of his goods without participating in or contributing to the general average losses, as can be seen from the following example:

Assume that cargo B worth 1,000 is sacrificed for the common safety. A general average of 1,000 is apportioned over the values of ship and arrived cargo (which are all 1,000). If this were between only those parties arrived, the figures would be:

Ship value of	1,000	Pays	334
Cargo A value of	1,000	Pays	333
Cargo B sacrificed	0	Pays	0
Cargo C value of	1,000	Pays	333
	3,000	Pays	1,000

The result of this apportionment is that, after paying their contributions to B, the shipowner and merchants A and C would have property with an effective value of 667, whereas merchant B would receive cash amounting to 1,000. This is clearly **unfair**, so merchant B also makes a notional contribution to the general average on the amount of the loss made good to him in general average, that is:

Ship value of	1,000	Pays	250
Cargo A value of	1,000	Pays	250
Cargo B made good	1,000	Bears	250
Cargo C value of	1,000	Pays	250
	4,000	Pays	1,000

By making Cargo B “contribute” on the basis of the amount made good he will receive 1,000 less 250 = 750, and everyone is now in the same position.

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AN OVERVIEW OF GENERAL AVERAGE (continued)

1.4.5 Example adjustment

	General Average
Shipowners' losses and expenses	
Cost of repairing damage to vessel's machinery sustained in refloating operations -	USD 250,000
Cost of discharging, storing in lighters, and reloading cargo discharged to lighten vessel -	100,000
Salvage paid to tugs for refloating vessel -	1,150,000
Cargo owners' losses	
Value of cargo jettisoned in efforts to refloat -	USD 500,000
Damage to cargo caused by forced discharge, storage and reloading -	<u>100,000</u>
	<u>600,000</u>
Total General Average -	USD 2,100,000

Apportioned

Ship:

Arrived value at destination in damaged condition - USD 6,750,000

Add allowance in general average for refloating damage - 250,000

USD 7,000,000 pays in ppn. USD 700,000

Cargo:

Invoice value after deduction of loss and damage - USD 13,400,000

Add allowance in general average in respect of jettison and damage due to forced discharge - 600,000

14,000,000 pays in ppn. 1,400,000

USD 21,000,000 pays USD 2,100,000

(General Average equals 10% of the contributory values.)

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AN OVERVIEW OF GENERAL AVERAGE (continued)

Balance under the adjustment

The Shipowner:

Receives credit for general average losses and expenses -	USD 1,500,000
Pays general average contribution -	700,000
Balance to receive -	USD 800,000

The cargo owner:

Pays general average contribution -	USD 1,400,000
Receives credit for general average losses -	600,000
Balance to pay -	USD 800,000

1.4.6 Contract of carriage

The parties to the adventure usually make special provision in the contract of carriage regarding general average, the most common being a clause to the effect that general average is to be adjusted in accordance with the York-Antwerp Rules. Such stipulations may be contained in the charter party, if any, or the bills of lading, or in both documents, thereby giving contractual effect to the Rules.

Rule D of the York-Antwerp Rules gives explicit recognition to the fact that general average exists irrespective of fault or breach of contract by any of the parties. It follows that normally the procedures for protecting the rights of the parties in general average must be observed even when it is suspected that such a fault or breach has taken place. Equally, the existence of a general average situation does not prejudice any rights or defences that are open to parties, for example with regard to cargo damage or alleging a breach of contract as grounds for not paying a general average contribution.

The giving of general average security in the customary terms is a promise to pay any general average contribution that is found to be properly and legally due. Generally, if there has been a causative breach of contract the contribution cannot be so described, and cargo interests may have grounds for declining to pay their contribution to general average. **Thus, the provision of proper general average security does not prevent a party from disputing its liability to contribute.**

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2 GENERAL AVERAGE SECURITY COLLECTIONS

2.1 Introduction

Most jurisdictions recognise that the shipowner can exercise a lien (i.e. refuse to allow delivery) on cargo at destination in respect of general average losses sustained by any of the parties to the adventure. The preparation of an adjustment will usually take some time, so that the shipowner will lift his lien in return for satisfactory security. Generally, the shipowner or appointed average adjuster will send notices to cargo interests setting out what is required by way of security (the exact procedure may vary slightly according to the jurisdiction(s) involved). The usual security requirements will be as follows:

- a. Signature by the owner or receiver of the cargo to a **General Average Bond (an undertaking that they will pay the contribution legally and properly due in respect of their cargo), and**
- b. **either** a cash deposit for an amount estimated by the adjuster to cover likely general average liabilities, usually expressed as a percentage of the invoice value of cargo,

or, **if the cargo is insured**, it is usual for a General Average Guarantee signed by a reputable insurer to be accepted by the shipowner in place of the cash deposit; the insurer will then take over the handling of the general average aspects of the case through their normal claims procedures.

Both the General Average Bond and General Average Guarantee are distinct contracts in their own right, and may, like any contract, be altered by agreement between the parties. **However, recommended standard wordings are shown in the Appendix which have been developed by the Comité Maritime International and approved by International Union of Marine Insurance and International Chamber of Shipping**

As already mentioned, any remedies and defences from the contracts of carriage remain unaffected by the provision of security under the CMI approved forms (see Appendix).

2.2 Actions for cargo owners/receivers

As noted above, in each case cargo interests will receive a GA notice from the average adjuster describing the security requirements in a particular case, but generally cargo interests will need to take the following steps:

- a. Complete, sign and return the General Average Bond to the adjuster.
- b. Attach the invoice for the goods to the signed bond.
- c. If the cargo is insured, pass the notice to the insurers who will complete the General Average Guarantee and take over further handling of the matter.
- d. If the cargo is not insured, advise the average adjuster and follow their instructions to provide a cash deposit as security.

On completion of these steps the cargo should be released in respect of general average for delivery in the usual way.

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GENERAL AVERAGE SECURITY COLLECTIONS (continued)

It is important that the GA notice is read carefully because in some cases a General Average Bond may not be necessary; but separate security to salvors may be required (see section 6 below). Also specific clauses in the contract of affreightment (e.g. the BIMCO Average Bond Clause) may make the provision of a General Average Bond unnecessary, but all other requirements remain unaffected by such provisions.

Details of any loss or damage to the cargo should be sent to the insurer and the average adjuster as soon as possible; this may reduce the amount to be paid towards general average.

If a cash deposit has been provided for general average and/or salvage, it is likely that part of the deposit will be returned once the adjustment is finished. Cargo interests should keep a careful record of the deposit so that the refund can be processed in due course.

It is a responsibility of cargo interests to notify the average adjuster of any changes in their contact details.

2.3 Actions for cargo insurers

Cargo insurers may receive the GA notice from their assureds or direct from the average adjuster and the contents need to be read carefully so that procedures can be followed promptly, avoiding any delay in the release of the cargo at destination.

The GA Guarantee should be completed, signed and returned to the adjuster as set out in the GA Notice.

A standard General Average Guarantee wording is shown in the Appendix. This wording has been approved by the industry bodies representing property insurers (IUMI) and shipowning interests (ICS). Some of the boxes need to be prefilled by the average adjuster, but if there is a need to depart from the standard wording of the clauses due to the circumstances of a particular case any change should be highlighted and explained by the average adjuster.

Details of any loss or damage to the cargo should be sent to the average adjuster as soon as possible; this may reduce the amount to be paid towards general average. It is a responsibility of cargo insurers to notify the average adjuster of any changes in their contact details.

2.4 Salvage security

In some circumstances and jurisdictions, and under salvage contracts such as Lloyd's Open Form (LOF), the salvor will have a separate right to action against each individual piece of property that is salvaged, once that property is brought into a place of safety. The salvor may therefore exercise a lien on all the cargo at that place and the cargo interests will have to provide two sets of security:

- a. salvage security to salvors at the place where the salvage services and
- b. general average security to the shipowner, at destination.

See section 6 for more details regarding LOF salvage.

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GENERAL AVERAGE SECURITY COLLECTIONS (continued)

2.5 Claim documentation

The burden of proof lies with any party wishing to claim general average sacrifices and expenses, and York-Antwerp Rule E includes time limits for submitting claims.

After collecting security the average adjuster will need information from cargo interests in order to:

- calculate the contributory value of the cargo.
- make any allowances in general average that are due to cargo.

Cargo interests will generally need to submit the following information to the adjuster:

- a. A copy of the commercial (CIF) invoice. If cargo has been sold on terms other than CIF the freight invoice and insurance premium details may be required.
- b. Details of any damage that has occurred to cargo during the voyage, including:
 - i. survey reports stating the cause and extent of damage
 - ii. the cargo insurers' settlement.

The damage to cargo will be deducted from the sound value to reach the contributory value; this will determine how much the cargo's general average contribution will be. If any of the damage is allowable as general average (e.g. water damage during fire-fighting operations) credit will be given in the adjustment.

CMI GUIDELINES RELATING TO GENERAL AVERAGE

3 ROLE OF THE AVERAGE ADJUSTER

3.1 Appointment of adjusters

It is usually the responsibility of the shipowner to appoint an average adjuster to prepare a general average adjustment. In the majority of jurisdictions the findings of the average adjuster regarding amounts payable by the parties to a maritime adventure are not legally binding, unlike with an arbitration award. The majority of adjustments are accepted by the parties (subject to any contractual defences) on the basis of the professional qualifications and expertise of the adjuster.

3.2 Best practice of average adjusters

Average adjusters work under different regulatory and professional regimes, however the following elements of best practice appear to be universal and are endorsed by the leading professional associations.

Irrespective of the identity of the instructing party, the average adjuster is expected to act in an impartial and independent manner in order to act fairly to all parties involved in a common maritime adventure.

In all cases the average adjuster should:

- a. Give particulars in a prominent position in the adjustment of the clause or clauses contained in the charter party and/or bills of lading that relate to the adjustment of general average or, if no such clause or clauses exist, the law and practice obtaining at the place where the adventure ends. Where conflicting provisions exist, the adjuster should explain in appropriate detail the reason for the basis of adjustment chosen.
- b. Set out the facts that give rise to the general average.
- c. Where the York-Antwerp Rules apply, identify the lettered and/or numbered Rules that are relied upon in making the allowances in the adjustment.
- d. Explain in appropriate detail the choice of currency in which the adjustment is based.
- e. Make appropriate enquiries as to whether any recovery relating to the casualty is being undertaken, and set out the results of those enquiries in the adjustment.

On request, and when practicable, the adjuster should make available copies of reports and invoices relied upon in the preparation of the adjustment.

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4 ROLE OF THE GENERAL INTEREST SURVEYOR

The “General Interest” or “GA” surveyor may be appointed by the shipowners on behalf of all parties involved in the common maritime adventure, usually only in the larger casualties or where cargo sacrifices are likely to be involved. In the event of a major casualty numerous surveyors may be in attendance on behalf of hull insurers, charterers, salvors, P&I liability insurers and cargo interests. The GA surveyor is there to provide an independent overview to help ensure that the interests of all parties are considered. The shipowner is usually responsible for settlement of the GA surveyor’s charges, which are allowed as general average, but the GA surveyor is expected to act in an independent and impartial manner when recording the facts and making recommendations.

The GA surveyor’s role is not to investigate the circumstances leading up to a general average situation (e.g. the cause of a fire) but once the situation exists, his role is generally as follows:

- a. To advise all parties on the steps necessary to ensure the common safety of ship and cargo.
- b. To monitor the steps actually taken by the parties to ensure that proper regard is taken of the General Interest.
- c. To review general average expenditure incurred and advise the adjuster as to whether the costs are fair and reasonable.
- d. To identify and quantify any general average sacrifice of ship or cargo.
- e. To ensure that general average damage is minimized wherever possible i.e. by reconditioning or sale of damaged cargo. Except in cases of extreme urgency or where communications are difficult, any significant action with regard to cargo (e.g. arranging for its sale at a Port of Refuge) must be taken in consultation with the concerned in cargo.

The authority and funds to make disbursements will generally come from the shipowner, usually via the master or the local agents. The GA surveyor therefore has no authority to order any particular course of action and his role is an advisory one. However, the GA surveyor’s impartial position and his influence on the eventual treatment of the expenditure will give his advice considerable weight with the other parties involved.

The GA surveyor should also be aware that several other surveyors may be in attendance on behalf of particular interests and that, for reasons of economy, duplication of reporting should be avoided. In the event of any doubt arising as to the depth of investigation required from the GA surveyor, the adjuster should be contacted for guidance. The GA surveyor is effectively appointed to act on behalf of the whole general average community, any of whom are generally entitled to view all his exchanges of correspondence and reports.

CMI GUIDELINES RELATING TO GENERAL AVERAGE

5 THE YORK-ANTWERP RULES 2016

5.1 Rule VI – Salvage

The wording of Rule VI paragraph (b) is new to the York Antwerp 2016. It arises from concerns that, if the ship and cargo have already paid salvage separately (for example under Lloyd's Open Form) based on salvaged values (at termination of the salvors' services), allowing salvage as general average and re-apportioning it over contributory values (at destination) may give rise to additional cost and delays, while making no significant difference to the proportion payable by each party.

A variety of measures to meet these concerns have been considered ranging from complete exclusion of salvage to using a fixed percentage mechanism. Such measures were found, during extensive CMI discussions, to produce inequitable results or were impossible to apply across the range of cases encountered in practice.

It was pointed out that many leading adjusters will, when appropriate, propose to the parties that if re-apportionment of salvage as general average will not produce a meaningful change in the figures or will be disproportionately costly, the salvage should be omitted from the adjustment; it is then up to the parties to decide whether it should be included or not. However, it was considered that a means should be found to make this practice more universal and to set out express criteria that would help to ensure that the allowance and re-apportionment of salvage as general average (where already paid separately by ship and cargo etc.) would only occur in cases where there was a sound equitable or financial basis for doing so.

The average adjusters will still be required to exercise their professional judgement in applying paragraph (b) because several of the criteria (i-v) that are listed require a view to be taken as to what should be deemed to be "significant" in the context of a particular case. Because of the wide range of cases that the York-Antwerp Rules apply to, it was not considered desirable to offer a fixed definition of how "significant" should be construed, other than to note that the objective of the new clause was to reduce the time and cost of the adjustment process where it is possible to do so.

When assessing whether there is a significant difference between settlements and awards for the purposes of Rule VI(b)(v) the adjuster should have regard only to the basic award or settlement against all salvaged interests before currency adjustment, interest, cost of collecting security and all parties' legal costs.

5.2 Rule XXII – Treatment of Cash Deposits

Under Rule XXII(b) the adjuster is required to hold deposits in a special account constituted in accordance with the law regarding holding client or third party funds that applies in the domicile of the appointed average adjuster.

Unless otherwise provided for by the applicable law, CMI recommends that any special account should have the following features:

- Funds should be held separately from the normal operating accounts of the adjuster.
- Funds should be protected in the event of liquidation or the cessation of the average adjuster's business.
- The holding bank should provide regular statements that show all transactions clearly.

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6 AN OVERVIEW OF SALVAGE UNDER LLOYD'S OPEN FORM

In a situation of acute danger for ship and cargo it is essential that salvage services are rendered promptly and efficiently. Debating the legal and/or contractual basis of such services can lead to serious delay. Thus, tried and tested standard forms of salvage contracts are often resorted to.

Lloyd's Open Form (LOF) is such a well-known standard salvage contract used to:

- Clarify the terms on which salvage services are given.
- Define the duties of each party.
- Set up agreed procedures for the provision of security and the settlement and payment of the salvage award.

LOF widely reflects the provisions of the International Convention on Salvage 1989. It is a "No Cure No Pay" contract. If there is a successful outcome and a payment is due, it will reflect whether the operation turned out to be easy or difficult. Once property is safe, the owners of the property have to provide appropriate security but no payment is due until an award has been made or agreed. Shipowners must use their best endeavours to ensure that none of the property is released until security has been provided. Under general maritime law salvors have a maritime lien over the salvaged property for their remuneration until satisfactory security is provided. The property should therefore not be removed or delivered without the consent of salvors.

By getting security, it means the salvors are ensuring their claim is met in full regardless of the property owners' unwillingness or inability to pay.

Security can be provided in a number of ways:

- Lloyd's – security can be lodged with the Salvage Arbitration Branch at Lloyd's.
- ISU1 – salvors will often accept security by way of an ISU1 Guarantee. Salvors may require that insurers who wish to provide security in this format meet specific minimum standards in terms of recognised credit ratings etc.
- Cash deposit – usually held on account by the adjuster until the award is made or agreed. Any balance remaining after settlement of the salvage contribution is returned to the depositing party.

Once the salvage operation has been completed, the matter is referred to an independent arbitrator, appointed to make a fair award. However, many LOF cases are settled commercially between the interested parties in order to avoid the time and costs of a full arbitration.

The LOF contract is subject to the International Convention on Salvage 1989 which also contains two articles (13 & 14) specifically dealing with remuneration paid to the salvors in respect of efforts taken to prevent or minimise damage to the environment. Awards made under Article 13 are paid by property insurers covering ship and cargo. Article 14 concerns an additional compensation to be paid by the shipowner or its P&I insurer in circumstances where the Article 13 award is deemed inadequate – for example when ship and/or cargo are a total loss. Article 14 claims are usually governed by the "Special Compensation P&I Clause" (SCOPIC).

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APPENDIX – GA SECURITY FORMS

1. General Average Bond for Cargo
2. General Average Guarantee for Cargo
3. General Average Bond for Bunkers and/or Freight (if separately at Risk)
4. General Average Guarantee for Bunkers and/or Freight (if separately at Risk)

Final Draft

PART 2

CMI General Average Bond – Cargo

1. In consideration of the delivery in due course of the Secured Property to us or to our order, on payment of the freight due, I/we, the party named in box 9, hereby agree to pay to the owners of the vessel named in box 1 or to the Adjuster on behalf of the various parties to the common maritime adventure, as their interests may appear, any contribution to General Average and/or Salvage and/or Special Charges which may hereafter be ascertained to be properly and legally due in respect of the Secured Property.
2. This bond will not take effect before arrival of all or part of the Secured Property at the port of discharge named in box 6 or other place where the common maritime adventure for the Secured Property ends.
3. The amount of this bond is limited in respect of general average contributions to the total contributory value of the Secured Property, as calculated by the Adjuster in accordance with the applicable York-Antwerp Rules.
4. This bond is without prejudice to any remedies or defences arising under the contract of carriage or otherwise. Without prejudice to the time available to rely upon any such remedies or defences these should be notified to the Adjuster within three months of the date of issue of the adjustment.
5. I/We further agree:
 - a) to make prompt payment(s) on account of such contribution as may be properly and legally due in respect of the Secured Property, as soon as the same may be recommended by the Adjuster. Any payment on account made is without prejudice to my/our liability under clause 1 in respect of the final adjustment. In respect of any payment on account I/we may require reasonable counter-security in like amount prior to payment;
 - b) to furnish promptly to the Adjuster particulars of the value and condition of the Secured Property, supported by a copy of the commercial invoice or, if there is no such invoice, details of the shipped value;
 - c) (i) that any dispute arising out of or in connection with this bond shall be governed by the law and subject to the exclusive jurisdiction specified in box 4. If nothing is stated in box 4 then English law shall apply and any dispute arising out of or in connection with this bond shall be referred to the High Court of Justice of England and Wales; and
(ii) to nominate an address for service of proceedings in accordance with (i) within 21 days of a request to do so by shipowners or their lawyers or other parties to the common maritime adventure who may wish to pursue a claim under this bond;
The above clauses (i) and (ii) are without prejudice to the law and jurisdiction governing the contract of carriage.
 - d) that any period of prescription, whether provided by statute law, contract or otherwise, shall commence to run from the date upon which the general average adjustment is issued, unless otherwise provided in the applicable York-Antwerp Rules;
 - e) that the third paragraph of Rule G of the York-Antwerp Rules 2016 shall be deemed incorporated where the applicable York-Antwerp Rules do not contain a “non-separation agreement“.
6. This bond is intended to create a legally binding obligation notwithstanding that it may be transmitted and stored solely in electronic form. It is hereby agreed that transmission of this bond to the Adjuster electronically constitutes good delivery to the owners of the vessel

GENERAL AVERAGE GUARANTEE - CARGO

(Wording approved by Comité Maritime International, International Union of Marine Insurance & International Chamber of Shipping)

This guarantee will not be accepted if any additions, deletions or amendments are made to it.

This guarantee is addressed to the owners of the vessel named in box 1 and other parties to the common maritime adventure as their interests may appear.

This guarantee shall be valid and enforceable irrespective of the existence or terms of any separate undertakings given by the property owner and any provisions in the insurance on the property.

PART 1 A – to be completed by or on behalf of the owners of the vessel

1. Vessel:	2. Casualty & Date:
3. Average Adjuster(s): (hereafter: "the Adjuster")	
4. Law and Jurisdiction:	

PART 1 B – to be completed by or on behalf of the insurers of the cargo

5. Port of Shipment:	6. Port of Discharge:
7.(a) Bill of Lading Number(s):	7.(b) Container Number(s):
8. Quantity and Description of Property: (hereafter: "the Secured Property")	
9. Insured Value of Property:	10. Policy/Certificate No:
11. Insurance Company Name:	12. Address:
13. Telephone No.:	14. Email:
15. Name of Signatory:	16. Position of Signatory:
17. Signature:	18. Date:

(For conditions see Part 2.)

PART 2

CMI General Average Guarantee – Cargo

1. In consideration of the delivery in due course of the Secured Property to the consignees thereof without collection of a cash deposit, we, the insurers shown in box 11, hereby guarantee to pay to the owners of the vessel named in box 1 or to the Adjuster on behalf of the various parties to the common maritime adventure, as their interests may appear, any contribution to General Average and/or Salvage and/or Special Charges which may hereafter be ascertained to be properly and legally due in respect of the Secured Property and payable without violating applicable economic or trade sanctions laws.
2. This guarantee will not take effect before arrival of all or part of the Secured Property at the port of discharge named in box 6 or other place where the common maritime adventure for the Secured Property ends.
3. The amount of this guarantee is limited in respect of general average contributions to the total contributory value of the Secured Property, as calculated by the Adjuster in accordance with the applicable York-Antwerp Rules.
4. This guarantee is without prejudice to any remedies or defences of the parties to the common maritime adventure arising under the contract of carriage or otherwise. Without prejudice to the time available to rely upon any such remedies or defences these should be notified to the Adjuster within three months of the date of issue of the adjustment.
5. We further agree:
 - a) to make prompt payment(s) on account of such contribution as may be properly and legally due in respect of the Secured Property, as soon as the same may be recommended by the Adjuster. Any payment on account made is without prejudice to our liability under clause 1 in respect of the final adjustment. In respect of any payment on account we may require reasonable counter-security in like amount prior to payment;
 - b) to furnish promptly to the Adjuster all information which is or may become available to us relative to the value and condition of the Secured Property;
 - c) (i) that any dispute arising out of or in connection with this bond shall be governed by the law and subject to the exclusive jurisdiction specified in box 4. If nothing is stated in box 4 then English law shall apply and any dispute arising out of or in connection with this bond shall be referred to the High Court of Justice of England and Wales; and
(ii) to nominate an address for service of proceedings in accordance with (i) within 21 days of a request to do so by shipowners or their lawyers or other parties to the common maritime adventure who may wish to pursue a claim under this bond;
The above clauses (i) and (ii) are without prejudice to the law and jurisdiction governing the contract of carriage.
 - d) that any period of prescription, whether provided by statute law, contract or otherwise, shall commence to run from the date upon which the general average adjustment is issued, unless otherwise provided in the applicable York-Antwerp Rules;
 - e) that the third paragraph of Rule G of the York-Antwerp Rules 2016 shall be deemed incorporated where the applicable York-Antwerp Rules do not contain a “non-separation agreement“.
6. This guarantee is intended to create a legally binding obligation notwithstanding that it may be transmitted and stored solely in electronic form. It is hereby agreed that transmission of this guarantee to the Adjuster electronically constitutes good delivery to the owners of the vessel named in box 1 and other parties to the common maritime adventure who wish to enforce this guarantee.

PART 2

CMI General Average Bond – Bunkers / Freight

1. In consideration of the owners of the vessel not exercising a lien for general average contribution in respect of the Secured Interest, I/we, the party named in box 7, hereby agree to pay to the owners of the vessel named in box 1 or to the Adjuster on behalf of the various parties to the common maritime adventure, as their interests may appear, any contribution to General Average and/or Salvage and/or Special Charges which may hereafter be ascertained to be properly and legally due in respect of the Secured Interest.
2. This bond will not take effect before the common maritime adventure ends.
3. The amount of this bond is limited in respect of general average contributions to the total contributory value of the Secured Interest, as calculated by the Adjuster in accordance with the applicable York-Antwerp Rules.
4. This bond is without prejudice to any remedies or defences arising under the contract of carriage or otherwise. Without prejudice to the time available to rely upon any such remedies or defences these should be notified to the Adjuster within three months of the date of issue of the adjustment.
5. I/We further agree:
 - a) to make prompt payment(s) on account of such contribution as may be properly and legally due in respect of the Secured Interest, as soon as the same may be recommended by the Adjuster. Any payment on account made is without prejudice to my/our liability under clause 1 in respect of the final adjustment. In respect of any payment on account I/we may require reasonable counter-security in like amount prior to payment;
 - b) to furnish promptly to the Adjuster particulars of the value and condition of the Secured Interest, supported by such documentation as may reasonably be requested by the Adjuster;
 - c) (i) that any dispute arising out of or in connection with this bond shall be governed by the law and subject to the exclusive jurisdiction specified in box 4. If nothing is stated in box 4 then English law shall apply and any dispute arising out of or in connection with this bond shall be referred to the High Court of Justice of England and Wales; and
(ii) to nominate an address for service of proceedings in accordance with (i) within 21 days of a request to do so by shipowners or their lawyers or other parties to the common maritime adventure who may wish to pursue a claim under this bond;
The above clauses (i) and (ii) are without prejudice to the law and jurisdiction governing the contract of carriage.
 - d) that any period of prescription, whether provided by statute law, contract or otherwise, shall commence to run from the date upon which the general average adjustment is issued, unless otherwise provided in the applicable York-Antwerp Rules;
 - e) that the third paragraph of Rule G of the York-Antwerp Rules 2016 shall be deemed incorporated where the applicable York-Antwerp Rules do not contain a “non-separation agreement“.
6. This bond is intended to create a legally binding obligation notwithstanding that it may be transmitted and stored solely in electronic form. It is hereby agreed that transmission of this bond to the Adjuster electronically constitutes good delivery to the owners of the vessel named in box 1 and other parties to the common maritime adventure who wish to enforce this bond.

GENERAL AVERAGE GUARANTEE - BUNKERS / FREIGHT AT RISK
(Wording approved by Comité Maritime International, International Union of Marine Insurance & International Chamber of Shipping)

This guarantee will not be accepted if any additions, deletions or amendments are made to it.

This guarantee is addressed to the owners of the vessel named in box 1 and other parties to the common maritime adventure as their interests may appear.

This guarantee shall be valid and enforceable irrespective of the existence or terms of any separate undertakings given by the property owner and any provisions in the insurance on the property.

PART 1 A – to be completed by or on behalf of the owners of the vessel

1. Vessel:	2. Casualty & Date:
3. Voyage:	
4. Average Adjuster(s): (hereafter: "the Adjuster")	
5. Law and Jurisdiction:	

PART 1 B – to be completed by or on behalf of the insurers of the bunkers/freight

6. Description of Interest(s) (hereafter: "the Secured Interest")	
7. Insured Value of the Interest(s):	8. Policy/Certificate No:
9. Insurance Company Name:	10. Address:
11. Telephone No.:	12. Email:
13. Name of Signatory:	14. Position of Signatory:
15. Signature:	16. Date:

(For conditions see Part 2.)

PART 2

CMI General Average Guarantee – Bunkers / Freight

1. In consideration of your refraining from requiring a cash deposit for general average contribution in respect of the Secured Interest, we, the insurers shown in box 9, hereby guarantee to pay to the owners of the vessel named in box 1 or to the Adjuster on behalf of the various parties to the common maritime adventure, as their interests may appear, any contribution to General Average and/or Salvage and/or Special Charges which may hereafter be ascertained to be properly and legally due in respect of the Secured Interest and payable without violating applicable economic or trade sanctions laws.
2. This guarantee will not take effect before the common maritime adventure ends.
3. The amount of this guarantee is limited in respect of general average contributions to the total contributory value of the Secured Interest, as calculated by the Adjuster in accordance with the applicable York-Antwerp Rules.
4. This guarantee is without prejudice to any remedies or defences of the parties to the common maritime adventure arising under the contract of carriage or otherwise. Without prejudice to the time available to rely upon any such remedies or defences these should be notified to the Adjuster within three months of the date of issue of the adjustment.
5. We further agree:
 - a) to make prompt payment(s) on account of such contribution as may be properly and legally due in respect of the Secured Interest, as soon as the same may be recommended by the Adjuster. Any payment on account made is without prejudice to our liability under clause 1 in respect of the final adjustment. In respect of any payment on account we may require reasonable counter-security in like amount prior to payment;
 - b) to furnish promptly to the Adjuster all information which is or may become available to us relative to the value and condition of the Secured Interest;
 - c) (i) that any dispute arising out of or in connection with this bond shall be governed by the law and subject to the exclusive jurisdiction specified in box 4. If nothing is stated in box 4 then English law shall apply and any dispute arising out of or in connection with this bond shall be referred to the High Court of Justice of England and Wales; and

(ii) to nominate an address for service of proceedings in accordance with (i) within 21 days of a request to do so by shipowners or their lawyers or other parties to the common maritime adventure who may wish to pursue a claim under this bond;

The above clauses (i) and (ii) are without prejudice to the law and jurisdiction governing the contract of carriage.
 - d) that any period of prescription, whether provided by statute law, contract or otherwise, shall commence to run from the date upon which the general average adjustment is issued, unless otherwise provided in the applicable York-Antwerp Rules;
 - e) that the third paragraph of Rule G of the York-Antwerp Rules 2016 shall be deemed incorporated where the applicable York-Antwerp Rules do not contain a “non-separation agreement“.
6. This guarantee is intended to create a legally binding obligation notwithstanding that it may be transmitted and stored solely in electronic form. It is hereby agreed that transmission of this guarantee to the Adjuster electronically constitutes good delivery to the owners of the vessel named in box 1 and other parties to the common maritime adventure who wish to enforce this guarantee.