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SURA MARINE

KNOWLEDGE IN TRANSIT

WHY REJECTION INSURANCE IS NEEDED

While cargo insured by the Institute Meat Clauses is covered against loss or damage occurring during transit, rejection insurance differs in that it specifically covers pre-shipment issues and can be further extended to cover pre-slaughter issues. In the absence of rejection insurance, claims arising from pre-shipment or pre-slaughter issues are not covered.

THE RISK

Not all Governments have well published criteria for what constitutes a valid reason for rejection of a shipment. To avoid issues with vague or questionable shipment rejections most Australian insurers will only cover rejection risks for exports to the USA and Canada where a clear framework exists for the rejection of shipments and where experienced marine surveyors are available to manage the claims.

Rejection Insurance provides cover against the risk that export shipments are rejected by an overseas government authority. While this paper will focus on rejection cover for exports of meat, cover may be available for exports of seafood or other agricultural products.

The grounds for rejection will generally be that a contaminant has been discovered in the meat, most likely arising from the slaughter process. Additionally there may be a fear (either real or perceived) that the meat may carry organisms that could harm the national economy by introducing new diseases.

Whereas the standard Institute Cargo or Meat Clauses cover the risk of physical loss or damage, rejection Clauses provide cover for the risk of goods being rejected and destroyed by overseas governments' health authorities and the risk of the meat having reduced sale value arising as a result of such rejection. Rejection insurance also pays for the costs incurred in order to mitigate such loss in value (e.g. by being shipped to an alternative overseas market or returned to the exporter for local resale). Bear in mind that if goods are rejected because of physical loss or damage to the meat then that is more likely to be covered by the underlying cargo policy, not the rejection cover.

There are two 'levels' of rejection insurance available and they are always insured as an extension to a cargo insurance policy that provides loss or damage cover in accordance

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CLAIMS

Generally the smaller the animal the greater the rejection risk. Historically lamb and mutton meats have been the most susceptible to rejection claims, primarily due to the presence of faeces.

Other reasons for rejection could be the presence of bone fragments or excessive hair. Ultimately a significant risk factor is the cleanliness and quality control of the processing establishment.

Rejection claims generally involve a number of packages being rejected upon inspection by authorities with the most economical outcome being destruction of the cargo.

In the case of the rejection of an entire shipment by Government authorities claims can range from the additional cost of shipping the cargo to a country where rejection criteria are more relaxed, the cost of returning the cargo back to the country of origin, or the depreciation involved in selling the cargo at below market 'fire sale' prices following it being certified as fit only for animal consumption. In the worst case the rejection can result in no market for the meat which then needs to be destroyed.

POLICY WORDING

There are two types of rejection cover available in the market: Rejection Clauses 1/5/95 and Extended Rejection Clauses.

STANDARD REJECTION COVER

The Rejection Clauses 1/5/95 cover diseases of pre-shipment origin; usually bone fragments or hair introduced during the slaughter process.

EXTENDED REJECTION COVER

Extended Rejection covers diseases of pre-slaughter origin, E-Coli, Salmonella, Listeria, or defects discovered upon microbiological testing. A good example is the 2001 outbreak of 'foot and mouth' disease in European livestock. This meant that shipments of meat were prohibited from entering the overseas destination port. So serious was the risk to economy and environment that many millions of head of cattle were destroyed. Obviously this would cause a significant problem for a meat exporter who has shipped a cargo of meat to a destination where subsequently that cargo would be prohibited from being unloaded.

COST

Rejection insurance can be very expensive and will usually be many times the price of the underlying basic loss or damage premium insured by Meat Clauses. Cover for Extended Rejection can be difficult to obtain and is usually only granted to well established exporters using reputable processing facilities.