

Carrier liability and cargo insurance

Hague-Visby, CMR, Montreal: how much of a loss does the carrier pay, and why do you need cargo insurance?

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Online interactive version: <https://ozgurkonakci.com/en/guide/carrier-liability-cargo-insurance/>

SHORT ANSWER

A carrier's liability for loss of or damage to cargo is limited by international conventions and expressed in Special Drawing Rights (SDR). At sea, under the Hague-Visby Rules (and article 1186 of the Turkish Commercial Code), the limit is 666.67 SDR per package or 2 SDR per kilogram of gross weight, whichever is higher. On international road journeys CMR sets 8.33 SDR/kg, and in the air the Montreal Convention sets 26 SDR/kg from 28 December 2024. Because cargo is often worth far more than these limits, cargo insurance is needed.

Why is carrier liability limited?

Carriers move thousands of different cargoes whose value they do not know. International transport conventions therefore limit the carrier's liability to a set amount. That limit can be far below the real value of the goods; for light, valuable cargo the gap is especially large.

Limits are expressed in **Special Drawing Rights (SDR)**, a reserve unit calculated by the IMF from a basket of currencies and converted into local currency at the rate on the date of payment.

Liability limits by mode

Mode	Rules	Limit
Sea	Hague-Visby Rules; in Türkiye, Turkish Commercial Code art. 1186	666.67 SDR per package or 2 SDR per kg gross weight (whichever is higher)
Sea	Hamburg Rules (in states party to them)	835 SDR per package or 2.5 SDR per kg (whichever is higher)
Road (international)	CMR	8.33 SDR per kg gross weight
Air	Montreal Convention	26 SDR per kg (from 28 December 2024; previously 22 SDR)

These limits do not apply when the nature and value of the goods were declared before shipment and entered on the document; the carrier usually charges extra freight in that case. Limits can also be broken in cases such as wilful misconduct by the carrier. The details differ under each convention.

Liability limit calculator

The default SDR rate is an **example**; take the current value from the IMF website.

Example: 1,000 kg, 10 packages, worth USD 100,000. Hague-Visby/TCC: $\max(10 \times 666.67; 1,000 \times 2) = 6,666.7$ SDR. Assuming 1 SDR = USD 1.35, $\approx$ USD 9,000, about 9% of the cargo value. The same cargo under CMR: $1,000 \times 8.33 = 8,330$ SDR $\approx$ USD 11,246. Montreal: $1,000 \times 26 = 26,000$ SDR $\approx$ USD 35,100.

Why the number of packages matters

Under the Hague-Visby Rules, if the bill of lading states the number of packages or pallets inside the container, each one counts as a package. If it does not, **the whole container counts as one package**. A bill reading "1 x 40' container said to contain 20 pallets" can make the limit 20×666.67 SDR instead of 666.67 SDR.

Cargo insurance

Cargo insurance pays the cargo owner's loss within the policy cover, regardless of whether the carrier is liable. The insurer then recovers from the carrier. In international trade the **Institute Cargo Clauses** are widely used:

- **ICC (A):** "All risks" cover. Covers any loss or damage apart from the exclusions. The minimum cover under CIP.
- **ICC (B):** Covers named perils; wider than (C).
- **ICC (C):** Covers major named perils such as fire, sinking and stranding. The minimum cover under CIF.

The insured value is usually set at **110% of the CIF value**; the extra 10% covers expected profit and costs. War and strikes risks are covered by separate clauses.

General average

When a ship and its cargo face a common danger (a fire or a grounding, for example), sacrifices made and expenses incurred on purpose by the master to save them all can be declared **general average**. These are shared between the ship and all cargo owners in proportion to their values; every cargo owner contributes even if their own cargo was undamaged.

When general average is declared, cargo is not released until security for the contribution is given. For an insured cargo owner, the insurer provides the security. An uninsured cargo owner usually has to pay a cash

deposit of a percentage of the cargo's value to get the cargo released. Today the **York-Antwerp Rules 2016** are most commonly used.

What to do when there is a loss

- Note visible damage or shortage **on the delivery receipt**; do not sign it clean.
- Give the carrier **written notice of the loss** within the short periods set by the contract.
- Keep the damaged cargo and packaging; take photographs.
- Inform your insurer immediately and ask for a **surveyor** to be appointed.
- Do not miss the time limits for claims against the carrier.

Test yourself

1. A 1,000 kg shipment of 10 packages worth USD 100,000 is lost at sea. What is the carrier's limit under Hague-Visby? (*Answer: The higher of $10 \times 666.67 = 6,666.7$ SDR and $1,000 \times 2 = 2,000$ SDR, i.e. 6,666.7 SDR, far below the cargo's value.*)
2. What minimum cover does the seller insure under CIF? (*Answer: ICC (C), for at least 110% of the invoice value.*)
3. You are asked to contribute to general average although your cargo was undamaged. Why? (*Answer: General average is shared among all the values saved from the common danger; undamaged cargo counts as saved value.*)

Frequently asked questions

Does the carrier pay for the whole loss?

Often not. The carrier's liability is limited by international conventions, and the carrier may pay nothing at all if it proves it was not at fault or that one of the exceptions in the contract applies. That is why cargo insurance is taken out to protect the full value of the goods.

What is an SDR?

The SDR (Special Drawing Right) is a reserve unit calculated by the IMF from a basket of currencies. Liability limits in transport conventions are expressed in SDRs and converted into local currency at the rate on the date of payment. The current value is published on the IMF website.

What is general average?

When sacrifices are made or expenses incurred on purpose to save the ship and cargo from a common danger, they are shared between the ship and all cargo owners in proportion to their values. Every cargo owner contributes even if their own cargo was undamaged. Today the York-Antwerp Rules 2016 are most commonly used.

Is a container one package for liability purposes?

Under the Hague-Visby Rules, if the bill of lading states the number of packages inside the container, each counts as a package; if not, the container counts as one package. So stating the number of packages on the bill of lading directly affects the limit.

SOURCES

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Turkish Commercial Code No. 6102, art. 1186 — limits of liability — <https://mehmettokar.av.tr/ttk-madde/madde-1186/>

IMF — SDR valuation (current rate) — https://www.imf.org/external/np/fin/data/rms_sdrv.aspx

General average explained (Tradlinx) — York-Antwerp Rules 2016 — <https://blogs.tradlinx.com/general-average-explained-why-your-cargo-can-be-held-after-a-ship-casualty/>

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