HYLANT

The Impact of New Tariffs on Marine Cargo Insurance

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Marine SPECIALTY

What Are Tariffs & Why Do They Matter?

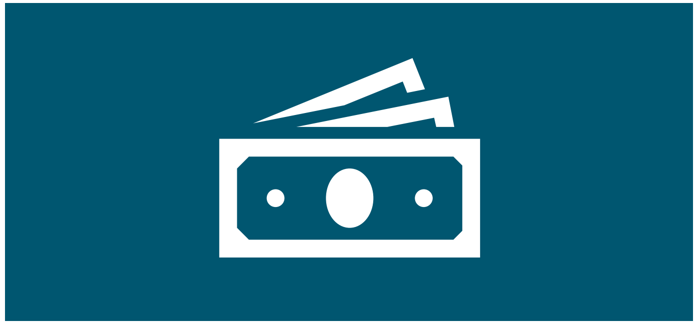
- Tariffs are taxes imposed on imported goods, designed to protect domestic industries and generate revenue.
- The first U.S. tariff law, the Tariff Act of 1789, imposed a 5% duty on imports. Tariffs continue to be a major tool in trade policy.
- A 10% tariff on a $100 item would increase its landed cost to $110.

Recent U.S. administrations—including current and past—have imposed new tariffs on goods, particularly from China and other non-USMCA countries (Canada and Mexico are generally exempt under USMCA).

These tariffs aim to:

- Protect American manufacturing
- Encourage domestic sourcing
- Address trade imbalances

Who Pays the Tariffs? (Understanding Incoterms)



Whether the **buyer or seller pays** the tariff depends on the terms of sale, known as **Incoterms** (International Commercial Terms). Established in 1936, Incoterms clarify:

- Division of costs and risk
- Responsibilities for customs, shipping, and insurance

Incoterms *do not* cover:

- Transfer of ownership
- Revenue recognition
- Multi-party transactions

Key Example:

- Under DDP (Delivery Duty Paid), the seller assumes responsibility for all import duties and tariffs.
- Under CIF (Cost, Insurance, Freight) or FOB (Free on Board), the buyer typically pays tariffs upon import.

Are Tariffs Covered by Marine Cargo Insurance?

Yes—many cargo policies do cover tariffs, depending on how the valuation clause is structured.

Common valuation terms:

- **CIF + 10%** (Cost, Insurance, Freight + 10% uplift for incidentals, including duties and tariffs)
- **Selling Price** (covers the full landed value, including profit margin and additional fees)

Look for these clauses:

- **"Duty and/or Collect Freight"** clause: Covers duty losses due to insured perils.
- **Valuation at Selling Price**: Ensures better tariff recovery if goods are sold or committed.

Business Impacts

HOW TARIFFS ARE CHANGING CARGO BEHAVIOR

Clients are importing goods early to avoid expected tariff increases—creating larger **stock throughput exposures**.

If your policy includes **warehouse storage**, confirm that storage sub-limits are sufficient to handle increased volume.

Cancellations before shipment due to tariffs are not covered:

- Cargo insurance requires physical loss or damage.
- A canceled PO without shipment is a financial, not insurable, loss.

Refused shipments due to tariff costs may be covered:

- Most policies have a **"Refused/Returned Shipments" clause** to protect goods awaiting return or reshipment.

Key Takeaways for Cargo Policyholders

Increased Pre-Tariff Importing

Many clients have accelerated imports in anticipation of rising tariffs. These shipments are often placed under **stock throughput policies**, where inventory in storage is covered under the marine cargo program.

It's critical to review your **storage limits of liability** to ensure sufficient coverage for this surge in goods.

Cancelled Orders Before Shipment

We've observed a rise in order cancellations due to tariff costs before the goods even ship. While this results in a **financial loss**, there is **no physical loss or damage**; therefore, a standard cargo policy **does not respond** to this scenario.

Refused Shipments at Destination

Goods that arrive but are refused by consignees due to high tariff costs present another exposure. Normally, cargo coverage **ends upon delivery** (unless under stock throughput).

However, many cargo policies include a **"Refused/Returned Shipments" clause**, which:

- Extends **"All Risks" coverage** for shipments that are refused and returned,
- Covers the goods **while awaiting reshipment or return** and until received.

Comprehensive Coverage:
Smooth Sailing Ahead with Hylant Marine

Successfully managing marine risks requires a deep understanding of maritime operations and insurance intricacies. Hylant's marine experts can guide you through challenges to ensure that your shipyard operations remain secure, resilient and focused on achieving your objectives.

Types of Marine Insurance

- Marine cargo insurance, including stock throughput
- Marine liability insurance, including marina operators' legal liability, wharfingers liability and stevedoring liability
- All-risk marine insurance (cargo insurance)
- Shippers insurance
- Marine hull and machinery insurance
- Marine protection and indemnity insurance
- Inland marine insurance, including equipment and installation
- Marine contractors insurance
- Charterers liability
- Shippers interest insurance
- Vessel builders risk insurance
- Vessel and marina pollution insurance (COFR)
- USL&H insurance
- Admiralty coverage/Jones Act insurance
- Bumbershoot and excess insurance
- War coverage
- License and permit bonds
- Auto coverage, including captive insurance
- Cyber liability insurance
- Workers' compensation insurance, including captive insurance
- Employee benefits

Thank you!

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