

## GUIDE TO SHIPPING TRADE TERMS

If you are new to shipping terms contracts you may be unaware of the different trading practices in their respective countries. A small misunderstanding with the shipping terms could lead to disputes over who was meant to pay for the overseas freight, insurance or other costs involved in the shipment of goods. The **shipping trade rules or International Commercial Terms ( Inco terms)** are a series of defined commercial terms published by the International Chamber of Commerce(ICC).

**Incoterms** are an internationally recognised set of instructions used in the global transportation of goods. They define the division of responsibility between the Shipper (usually the supplier/consignor) and the Consignee (usually the buyer). The terms dictate which party is responsible for the risks, costs and liabilities associated with the shipment at each stage of the shipping process. Here's an explanation of what each term means

**All in rate** – Freight rate which is inclusive of all surcharges and extras. This type of freight rate is to be found in the liner trade.

**Bill of Lading** – Document issued by a ship-owner or Freight Forwarder to a shipper. It serves as a receipt for the goods, evidence of the contract of carriage and document title.

**Breakbulk** – Relating to cargo lifted on and off ships one piece or bundle at a time by means of cranes and derricks, as opposed to cargo shipped on trailers or in shipping containers. Such goods may be described as breakbulk cargo.

**Bunker Surcharge** – Extra charge applied by shipping lines, or set by liner conferences on behalf of their members, to reflect fluctuations in the cost of bunkers. This surcharge is expressed either as an amount per freight ton or as a percentage of the freight. Abbreviated to b/s or as b.a.f (bunker adjustment factor).

**Congestion surcharge** – Extra charge applied by the shipping lines, or set by liner conferences on behalf of their members, to reflect the cost of delay to their ships at a particular port caused by congestion.

**Container Freight Station (CFS)** – Place where consignments are grouped and packed into a shipping container or where such consignments are unpacked.

**Container yard (CY)** – Place to which full container loads are delivered by the shipper to the ocean carrier and to which empty containers are returned.

**Cost and freight (C & F)** – Sales term denoting that the seller is responsible for arranging and paying for the carriage of the goods to the agreed port of discharge. Risk of loss and damage generally passes to the buyer when the goods pass ship's rail at the port of loading.

**Cost insurance and freight (CIF)** – Sales term denoting that the seller is responsible for arranging and paying for the carriage of the goods to the agreed port of discharge and for the insurance of the goods covering the period of carriage involved in the contract of sale. The risk of loss and damage generally passes to the buyer when the goods pass ship's rail at the port of loading.

**Currency adjustment factor (CAF)** – Surcharge applied to freight rates by shipping lines or set by liner conferences on behalf of their members. The purpose of the currency adjustment factor is embodied in the E.S.C (European Shippers' Councils)/C.E.N.S.A (Council of European and Japanese National Shipowners' Associations) Code. It is to ensure that the revenue of the shipping lines is unaffected by the movements in the currencies in which transactions are carried out by the lines in relation to the tariff currency.

**Door to door** – Said of a service or freight rate provided by a container shipping line whereby goods are loaded into a container at the shipper's premises and not unloaded until they arrive at the consignee's premises. Free carrier (F.C.A) – New combined transport incoterms replacing FOB where CT is involved but applicable to all mode of transport.

**Free on Board (F.O.B)** – Sales term denoting that the seller is responsible for delivering the goods to the port of loading agreed in the contract and for loading them on to the ship nominated by the buyer. The risk of loss or damage to the goods generally passes from the seller to the buyer when the goods pass ship's rail at the port of loading.

**Free on Rail (F.O.R) or Free on Truck (F.O.T)** – Sales term denoting that the seller is responsible for delivering the goods into the custody of the railway at a named place and, if agreed in the contract of sale, for loading into rail cars, at which time the risk of loss or damage to the goods generally passes from seller to buyer.

**General Average** – Intentional act or sacrifice which is carried out during a voyage to preserve the venture from a real peril. The party who has suffered a loss as a result is reimbursed by all the other parties to the marine adventure, each paying a proportion of the amount of the loss according to the value of their interest.

**Groupage** – The grouping together of several compatible consignments into a full container load, also referred as consolidation.

**Hague Rules** – Rules governing the carriage of goods by sea and identifying the rights and responsibilities of carriers and owners of cargo. These rules were published in 1924 following an international convention and were subsequently given the force of law by many maritime nations.

**Incoterms** – Rules governing the interpretation of terms used in international trade, published by the International Chamber of Commerce. Against each of the terms of sale, such as fob, cif and delivered, are defined the duties of buyer and seller. These rules are incorporated into a contract of sale by agreement of the two parties.

**Intermodal transport** – Carriage of a consignment of goods using more than one mode of transport, such as rail and sea.

**International Maritime Organization** – Agency of the United Nations, based in London, England concerned safety at sea. Its works includes codes and rules relating to tonnage measurement of ships, load lines and safety carriage of grain. Abbreviated to I.M.O. It was previously called the Inter-Governmental Maritime Consultative Organisation (I.M.C.O)

**Letter of Indemnity** – Written statement in which one party undertakes to compensate another for the costs and consequences of carrying out a certain act.

**Liner in free out (LiFo)** – Qualification to a freight rate denoting that it is inclusive of the sea carriage and the cost of loading. It excludes the cost of discharging which is payable by the shipper or receiver, as the case may be. There may be a laytime and demurrage arrangement at the port of discharging since the carrier has no control over the discharging.

**Liner terms** – Qualification to a freight rate which signifies that it consists of the ocean carriage and the cost of cargo handling at the loading and discharging ports according to the custom of those ports. This varies widely from country to country and, within countries, from port to port: in some ports, the freight excludes all cargo handling costs while in others the cost of handling between the hold and the ship's rail or quay is included.

**Manifest** – Document containing a full list of a ship's cargo, extracted from the bills of lading. A copy, known as the outward manifest, is lodged with the customs authorities at the port of loading. A further copy, known as the inward manifest, is similarly lodged at the discharge port.

**Merchant haulage** – Inland transport of shipping containers provided by the shipper or receiver of goods rather than by the ocean carrier.

**Ocean waybill** – Document, issued by a shipping line to a shipper, which serves as a receipt for the goods and evidence of the contract of carriage. In these respects it resembles a bill of lading but, unlike a bill of lading, it is not a document of title; it bears the name of the consignee who has only to identify himself in order to take delivery of cargo. Because it is not negotiable, the liner waybill is not acceptable to banks as collateral security. The purpose of the liner waybill is to avoid the delays to ships and cargoes which occur when bills of lading are late in arriving at the discharge port. The liner waybill is also referred to as a liner waybill or a sea waybill or simply a waybill.

**Seaworthiness** – Fitness of a ship for a particular voyage with a particular cargo. The main requirements for seaworthiness are that a ship has sufficient crew, stores and fuel, that machinery and equipment are in good repair and that the ship is fit to receive and carry the cargo.

**Terminal Handling Charge** – Charge payable to a shipping line either for receiving a full container load at the container terminal, storing it and delivering it to the ship at the load port or for receiving it from the ship at the discharge port, storing it and delivering it to the consignee.

**Through bill of lading** – Bill of Lading issued by a shipping line for a voyage requiring on-carriage, thus involving at least one transshipment. According to the particular contract, the issuer of the bill of lading may be responsible for the goods throughout the voyage or only for one leg, acting as agent for the on-carriage.

**Transshipment** – Transfer of goods from one ship to another. This transfer may be direct or it may be necessary to discharge the goods on to the quay prior to loading them on to the second ship, or on to vehicles should the second ship be loading at a different berth.

**Twenty foot equivalent unit** – Unit of measurement equivalent to one 20 foot shipping container, normally abbreviated to teu. Thus a 40 foot container is equal to two teus. This measurement is used to quantify, for example, the container capacity of a ship, the number of containers on a particular voyage or over a period of time, or it may be the unit on which freight is payable.

**Wharfage** – Charges payable by cargo interests for the use of a wharf.

## **RULES FOR ANY MODE OR MODES OF TRANSPORT**

**EXW (Ex Works)** - the seller delivers when it places the goods at the disposal of the buyer at the seller's premises or at another named place (ie, ex-works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

**FCA Free Carrier** - the seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

**CPT Carriage Paid To** - the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

**CIP Carriage And Insurance Paid To** - the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

‘The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.’

**DAT Delivered At Terminal** - the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

**DAP Delivered At Place** - the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

**DDP Delivered Duty Paid** - the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

## **RULES FOR SEA AND INLAND WATERWAY TRANSPORT**

**FAS Free Alongside Ship** - the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

**FOB Free On Board** - the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

**CFR Cost and Freight** - the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

**CIF Cost, Insurance and Freight** - the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

‘The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.’