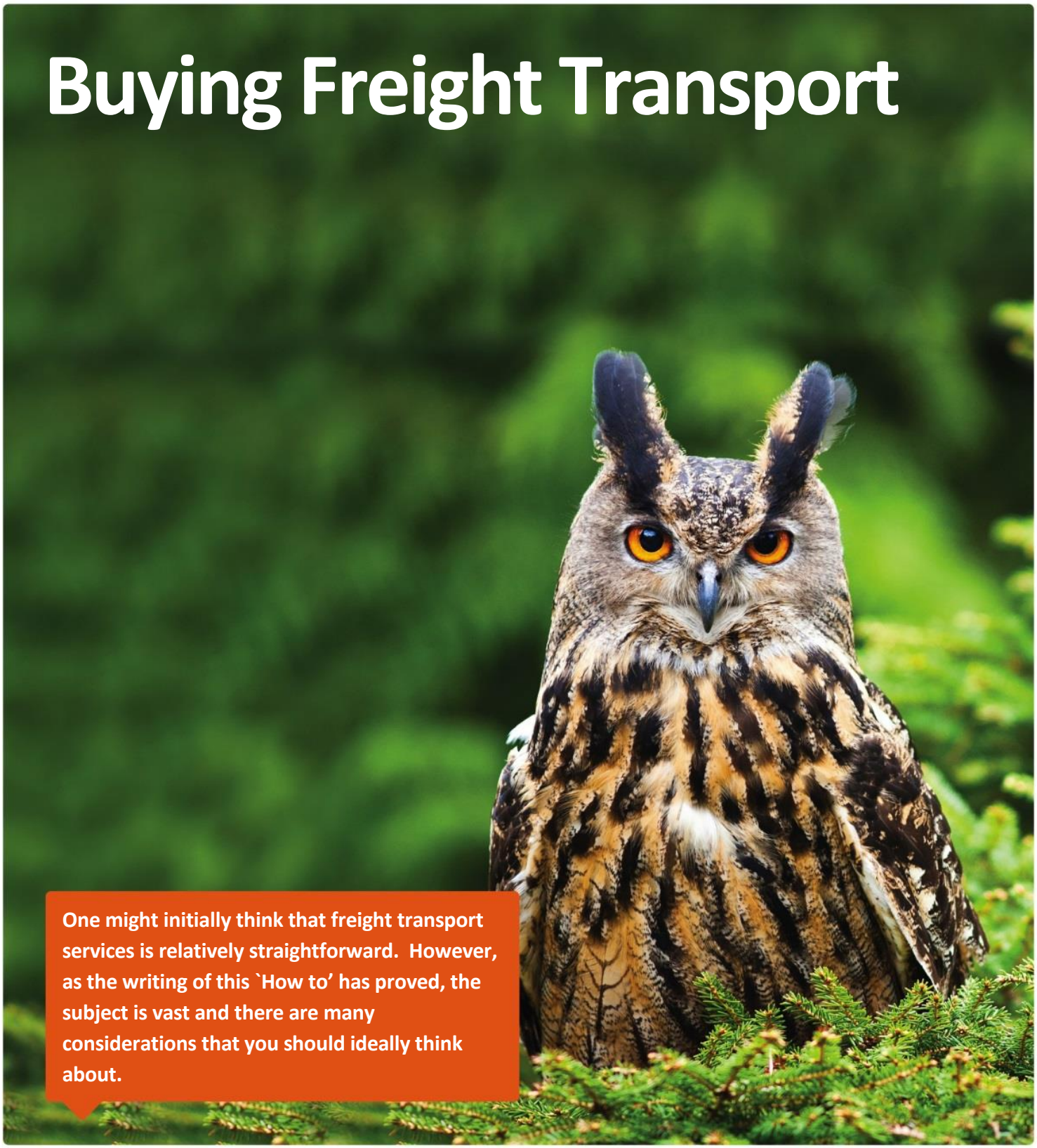
Buying Freight Transport



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Introduction

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If your role in business involves selling transport services then it is likely that the market and its customers will set the price. If, however, you are actually looking to buy transport services then you will find that the variety of transport methods and routes are considerable and you need to consider the most appropriate method/route for you and the best value price, which is not necessarily the lowest price.

Your requirement for transport services may be "one off" or short term which, while still requiring detailed analysis, will be a different approach to that if you were looking at a longer-term strategy for buying transport. For example an analysis of transport by sea might highlight the fact that particular ports are close to maximum capacity, so a careful watch must be kept on capacity and port development, - both areas to be considered in planning for the longer term.

Your transport requirement, while unlikely to be unique, is dependent upon your business need at a particular time. The intention of this guide therefore is not to give you the solution of what transport to buy, but to try to steer you through a maze of considerations in order to help you make the correct decision.

Characteristics of what it is you want to do with transport

Before you embark on your supplier selection you must consider what your requirement is and, as in the case for any procurement, prepare a specification and risk assessment. Your requirement could be relatively straightforward, for example, your need may be to get one pallet from A to B within the UK. If that were so it may therefore be simply a case of picking up the phone book, selecting some transport companies, stating your requirements to obtain quotes and then making a selection in a matter of minutes. However, if your requirement is for international transport, or if you have a need for regular shipment of goods into or from your business, then this is a far more complex process and you need to cover the risks involved.

If, for example, you are going to use more than one mode of transport to ship goods half way across the world there are implications in the management of this. Do you have the technical expertise to deal with such an operation; there may be language issues to tackle. There are rules and legislation to consider, i.e., rules about how long drivers can drive for at a time, local issues such as the fact that lorries are not allowed to drive through some foreign cities or countries during the night or on specific days. Whose responsibility is it to load goods from one mode of freight to another? Which Incoterms will you use?

There is much therefore you need to consider. Initially you need to look at what it is you are trying to achieve, i.e.

- What it is you need to move?
- Where is it going?
- When does it need to get there?

Then you need to consider in greater detail:

- Commodity/goods
- Perishability
- Packaging
- Security
- Export or Intra UK
- Size /weight of goods
- Speed

If you consider the above when considering a form of transport, then you will be some way to achieving that all important specification and ultimately a cost for the service.

Other considerations to look out for include;

- Road Taxes / Tolls
- Subsidies
- Conditions/facilities at destination
- Corruption
- Regulations – national/EU
- Local taxes
- Labour relations
- Incoterms
- Insurance
- Storage enroute - handling/conditions
- Transhipment enroute – (intermodal)
- Prequalification of agents/sources of transport
- Risk evaluation

Each of the above points is important but one which can, on occasions, be overlooked is Subsidies. EU subsidies can often make sea freight much cheaper, if for example, you are importing goods from Turkey it will take approximately five days by road and 10 days by sea. So if it was suitable to do so, building an extra five days of lead-time into the delivery date, to make use of subsidised sea transport will lead to a lower cost for transport.

It must be remembered that Buying Transport services should follow established purchasing principles, in addition to building your requirements specification, you must carry out market research/analysis as you would for the supply of any other goods or services and of course carry out a full risk assessment. Your market analysis will lead you to look at the various modes of transport and your risk assessment will, amongst other things, give consideration to past problems, and consider the consequences if for example the port became congested and it took time to get to the feeder carriers. Market and Risk analyses will guide a buyer to making the correct decisions for either long or short- term contracts.

Often, knowing where a product is, is as important to a company buying goods as the criticality of a product. Some companies, therefore, use the fact that goods are in transit to help with warehousing, but the need to know where those goods are at any point in time is critical. If this is so in your case it therefore might be appropriate to have tracking systems in place with your transport provider and perhaps integrated into your own internal systems. The cost of integrating tracking systems into your internal systems may be considerable not only in

monetary terms but in the use of resources for planning, developing and implementing but it might also provide considerable advantages so should not be dismissed without some investigation.

Another area to consider particularly if you have regular shipment coming in or out of a business is back loading/milk rounding with suppliers, internal distributors or even competitors. This will make use of the spare capacity on the return trip after a shipment has been delivered and so make optimum use of that transport resource.

All is not lost if you do not have the expertise in-house to handle the above, or if you decide that your business strategy does not include running a transport operation and competing with companies such as FedEx, there are options open to you. For instance if you are buying goods in, you could put the responsibility on your supplier to ship the goods directly to you. The supplier will of course charge for this but you should ensure that his charge is reasonable, not unduly inflated and not included in the cost of goods, which would increase customs duty payable. Alternatively you could outsource your transport requirement to a Freight Forwarding Agent who would manage the entire process involved in the transportation of goods from your business to your customer or another location. The agent will of course charge for his services and the selection of such an agent should follow established purchasing practices, but choosing to follow this route may very well be more appropriate, enabling you to work in partnership with your agent to avoid unnecessary delays, costs and difficulties in the shipment of your goods.

Moving goods

It is easy to think mainly in terms of road transport when considering modes of transport in distribution operations, particularly since this is the predominant freight transport mode in both the UK and Europe. Statistics from the Department of the Environment, Transport and the Regions (DETR) show that in 1998 (the most recent figures currently available) 81 per cent of all freight traffic moved within the UK was carried by road. In Europe, according to the International Transport Union (IRU), the figure is only marginally lower, being described as `almost 80 per cent'.

However, it is important to recognise that there are other transport modes such as rail, inland waterway, coastal and deep-sea shipping and air transport, or a combination of any of these in the form of intermodal transport. Dependant upon your requirement, any of these modes may offer levels of service, operational efficiency or cost advantage that equate to or even surpass those of road transport and therefore it would be inappropriate to dismiss these without carrying out a modal selection process.

Assessing and selecting modes of transport

Which particular mode or combinations of modes to choose in any given circumstance will depend on a number of factors, as follows, which must be taken into account when selecting the mode of transport for moving goods into and out of the organization.

- Cost
- Suitability
- Availability
- Flexibility
- Speed
- Reliability

- Legal restrictions
- Weight restrictions
- Packaging and documentation requirements
- Business Requirement (i.e., service levels)

All of these aspects, and not necessarily in the order just shown, need to be examined in making a decision on the mode or combination of modes to be used for distributing any particular consignment.

It is also important to regularly evaluate the current mode of transport and monitor feedback in order to ensure that it is still appropriate, given any changing circumstances.

It is essential that transport is seen in terms of an integrated system. Identification of the optimum system can be achieved by:

- Investigating and evaluating the impact of transport on the total logistics system – in particular, its impact on existing systems, costs and customer service.
- Identifying the potential impact of using particular modes of services – especially taking into account potential cost or service trade-offs between the cost of the mode and other logistics costs, particularly inventory carrying costs.

When regularly reviewing the chosen transport mode, the main points that require consideration are as follows:

- The increasing importance of intermodal transport/integrated transport systems
- Increased pressure, on environmental grounds, to move from road to alternative transport modes
- The effect the Channel Tunnel has on European distribution and warehouse location see 5.6.3 below.
- The importance of looking at transport and warehouse location as a whole with the objective of minimising Total Distribution Costs (TDC).

It is important to obtain correct information from potential suppliers before selecting a transport mode or.

Types of Transport

Different transport modes have a differing set of characteristics, advantages and disadvantages in terms of their suitability for any particular distribution requirement, the main ones being listed here.

Road Transport

The road haulage industry is responsible for transporting most of the UK's freight. In 2001, this sector moved 149 billion tonne kilometres of UK freight and lifted 79.4% of British goods. However, over the past few years, the UK road haulage industry has experienced difficult trading conditions and volumes of road freight fell by 5.7% between 2000 and 2001, in billion tonne kilometre terms. (http://www.marketresearch.com/map/prod/814406.html)

Road transport has many advantages as evidenced by the popularity of its use.
As discussed earlier transportation in the UK is strongly biased towards road transport and this is mainly due to the following:-

- Flexibility

- Versatility
- Competitiveness (there are many third party operators)
- Well-developed road systems with pricing not related to usage (flat rate tax)

But other factors influence the case for road transport eg:

- Availability of vehicles and/or road freight services at short notice
- Short order-to-delivery times with direct through-movement
- Reduced delays as loads are under driver control throughout the journey
- Availability of a wide variety of types and load capacities to suit individual loads
- Ability of vehicles to move right up to loading/unloading points
- Response to short-notice collection/delivery/route instructions or variations
- Loads can be secured by the consignor at the original point of loading and remain untouched until the point of delivery is reached
- A single driver may be responsible for the load from the point of loading to the final delivery
- The consignor's own delivery notes used for receipt signature to provide Proof Of Delivery (POD)
- Reduced requirement for packing where consignments are loaded direct on to closed vehicles without further trans-shipment
- When loads are consigned in a firm's own vehicles or by a contracted logistics provider, the consignor can control the image presented to the customer (for example, by the appearance of the vehicle and the appearance and manner of the delivery driver)
- Documentation presented on delivery will be that of the consignor
- Reduced cost of packaging, handling and trans-shipment
- Individual consignment prices are negotiable
- Increasing use of tracking and visibility of goods

Road transport does however have disadvantages and these are predominantly of an environmental nature. For example, goods vehicles add to the toll of road accident statistics; they create traffic congestion (especially in towns) and cause noise, vibration, visual intrusion and, most significantly, air pollution which presents health risks to the population and add to global warming (which is said to be a cause of climatic changes). Deliveries may be subject to unforeseen delays, adverse weather conditions and increasing legislative controls. Deliveries may also be subject to pilfering and illegal trafficking.

Rail Freight

Transportation by rail freight is undergoing a renaissance following privatisation of the railways. Since1994 there has been a 50% growth in the volume of freight moved by rail. This means that 400 million lorry miles are removed from the congested roads every year. Between the year 2001 – 2002 there were 20 billion tonne kilometers of freight moved by rail (www.freightonrail.org.uk).

The principal rail freight operators, English, Welsh and Scottish Railway (EWS) and Freightliner have invested heavily in an effort to attract more traffic from road. EWS, the largest operator has reputedly spent more than £5billion on some 280 new heavy-duty locomotives and more than 2,500 new freight wagons while Freightliner is targeting 50% growth since its privatisation in 1996 - it too has put a fleet of new heavy duty locomotives into service. The other main freight operator Direct Rail services provides services mainly for its parent company British Nuclear Fuels Limited (BNFL) carrying nuclear materials.

Interesting developments are taking place in other areas of rail operations. Many of these are concerned with improving facilities for intermodal traffic, including experimentation with a prototype Freight Multiple Unit (FMU) from German Railways – Deutsche Bahn AG (DB) called `cargo sprinter' which carries swap bodies (or containers) on continuously linked, flat-bed wagons. These easily loaded cargo sprinters can be both fast and economical over much shorter distances than conventional freight trains and so offer a real alternative to direct road transport.

The principal advantages of rail are:

- Ability to move large volumes of freight especially over long distances
- An average freight train can remove 50 HGVs journeys from our roads
- Greater speed of delivery over long distances (Road vehicle drivers have to take statutory rest periods)
- Removal of freight traffic from congested road networks (a one per cent reduction in road freight equates to taking between 1,000 and 2,000 heavy lorries off the road network each year)
- Reduced air pollution compared to lorry traffic (2-16 per cent only of road transport emission levels)
- Greater energy efficiency in comparison to road freighting – per tonne carried, tail produces around 80% less carbon dioxide than rail.
- Greater public safety (deaths per 100 million vehicle kilometers are only 0.194 on rail against 53 on roads)
- Greater safety in the transport of dangerous goods – EU figures show that rail is 27 times safer than roads.
- Safety and security of deliveries
- Less likely to be affected by weather conditions.

Besides these advantages, rail also claims to produce less noise, less vibration and less visual intrusion than the equivalent number of heavy lorries per freight train load, bearing in mind that one train could equate to up to 100 heavy lorries. Transport of freight by rail offers a more environmentally friendly alternative to road.

The principal disadvantages of rail freighting are it's inflexibility, particularly in handling single load consignments, its lack of direct connection to most delivery locations (meaning transshipment to road vehicle for most final delivery legs) and its inability to offer fast services for one-off loads. This therefore can rule out rail transport for many requirements particularly a Just-in-Time (JIT), distribution environment.

Inland Waterways

Little known and considered by many to be an outdated means of transport, in 2002 Inland Waterways carried 49 million tones of cargo (including non-seagoing and sea going traffic) predominantly bulk petroleum and granular materials (http://www.dft.gov.uk/pns/DisplayPN.cgi?pn_id=2003_0150) . However there are further signs of a revival with a strategic review of the networks potential for carrying more traffic imminent and work about to start on the first new canal section for more than 100 years - a 17 mile link between Bedford and Milton Keynes. Irrespective of these developments it has to be recognized that this mode has only limited potential for the majority of logistics operations, but where waterway freighting is a suitable alternative mode - principally where speed is not of the essence, it does offer:

- Advantages of economy over road transport, albeit at a much slower pace of delivery
- Environmental benefits such as reduced traffic congestion and air pollution

Sea transport

Sea transport, both coastal and deep sea, plays a central role in worldwide freighting, principally in bulk tanker shipment of oil, petroleum, ore and other excavated materials. Specially built refrigerated (reefer) ships, container ships (carrying containerised general traffic) and Roll-On Roll-Off (RO/RO) ferry ships also account for large tonnages - the latter primarily on short sea routes. RO/RO shipping is an essential link in a high proportion of international road haulage movements and is thus part of the road modal choice.

From being perhaps the greatest shipping nation, the UK's registered trading fleet has declined significantly over recent years - currently the UK- flagged merchant fleet constitutes only about one per cent of the world fleet. In 1996 only 377 trading vessels of over 500 gross tonnes were UK registered with a combined gross tonnage of 6.06 million tonnes - 88 of these were RO/RO vessels and 38 were fully cellular container vessels.

Mainly the logistics industry's concern with sea freight is with containerised traffic - a freight mode that has developed significantly since its inception in America (by Sea-Land Services) in the mid-1950s. Cellular container vessels typically carry between 2,000 and 6,000 20ft containers and there are plans for containerships carrying up to 8000 containers in the foreseeable future.

Coastal sea-born traffic amounts to only relatively small tonnages, mainly bulk traffic (coals, oil, ore, etc). Road and rail services invariably offer faster services for domestic freight.

Sea freight carries the largest volume for International transport. However, in both `short-sea' (English Channel, the North Sea and the Irish Sea) and `deep-sea' shipping a variety of technical and competitive changes are taking place.

One should be aware of these changes as it is possible that, with rapid technical advance in sea freight, the relative advantage of airfreight in terms of rapid delivery may be eroded. This is particularly true on `short-sea' routes to continental Europe.

Technical Aspects of Sea Freight

The following is a list of some of the technical aspects of international sea freight of which you may need to be aware:

- A `CTO' – a Combined Transport Operator – takes responsibility for an entire, usually containerized, consignment during its entire journey.
- RO/RO (Roll-On or roll-Off) must be distinguished from `short-sea' to RO-RO ferries and offer less flexibility. Trailer units are usually loaded aboard RO-RO ships by means of special technical equipment rather than being driven on by the conventional lorry-tractor unit.
- ISO containers, also referred to as intermodal containers, are used to transport freight. ISO containers are designed for transportation by more than just one mode: such as truck and rail, or rail and ship. These freight containers conform to the International Organization for Standardization (ISO) container manufacturing standards. ISO is an international standards organization headquartered in Geneva, Switzerland. Cellular container ships have specially designed hulls to accommodate ISO containers. This is usually done by means of rails or

brackets, which fit the corner `strong-points' of a standard container design. Such ships typically carry nothing else but standard ISO containers.
- Combo (combination ships are usually a combination of break-bulk (conventional between-deck) and container ships. They are particularly used on feeder services between minor ports and major entry ports such as Rotterdam.

The demand for shipping worldwide fluctuates widely and unpredictably, depending on political and economic changes. As a result, freight rates themselves can change dramatically. This particularly affects scheduled liner operations. As a result, from a commercial viewpoint, shipping companies have the choice either to be aggressively competitive, or to seek security through cartel restrictions on trade.

Advantages of Sea Transport:-
- Cost advantage over air freight
- Ability to move large volumes of bulky or heavy freight
- More environmentally friendly than air freight
- Good road transport link from ports

Disadvantages:-
- Speed
- Multi handling at ports
- Relies on other forms of feeder transport
- Can be affected by adverse weather conditions
- Increased documentation
- Greater Packaging requirements
- Ports can be susceptible to more industrial disputes
- May have affect on inventory requirements.
- Ports in future may be full to capacity

Airfreight

Airfreight is a rapidly growing method of transport with many carriers specializing in particular market segments. In 1997 freight throughput at UK Airports was 1,955,571 tonnes. Air freight provides an important alternative mode for low-volume, high-value, urgent freight consignments. In competition with road haulage on pan -European routes, however it is interesting to note that its speed is not always superior - some airlines actually road-trunk airfreight shipments between airports to beat licensing restriction and airport delays. The advantages of air transport can be summarized as follows;

- Speed of delivery – this reduces the necessary inventory and investment and is suitable for seasonable or perishable items
- Reliability of delivery – again reduces the necessary inventory investment in safety and buffer stock
- Environmental conditions – there is less requirement for packaging and cover as the probability of damage and pilfering is less.
- Safety and Security
- Comprehensive scheduled network.
- Close to good road networks

There are however a number of disadvantages, which require consideration, as the method, is not suitable for all goods. Disadvantages include:

- High Cost
- Limited Capacity (As a consequence of the above it is mainly suitable for goods with a high value to weight ratio i.e. Small, higher-value goods)
- Subject to delays/susceptible to adverse weather conditions
- Cannot be used for dangerous substances/good
- Additional handling to and from airports
- There may be no airport nearby
- Some airlines specialize in freight and others don't, so may not offer such a comprehensive service.

When compared to surface freight the cost advantages of air freight are as follows;

- Inventory costs are much lower than for surface modes. There is less need to hold large inventories to handle slow and uncertain deliveries.
- Packaging costs are lower. However, surface distribution to the final consignee will require packaging
- Airports are sometimes closer to the points of organization and destination than the depots of surface modes where there is an international dimension
- Local distribution costs are frequently lower.
- Materials handling costs are reduced by smaller packages, reduced stocks, less need for trans-shipment.
- Insurance costs are frequently lower with the greater efficiency of systems of air cargo
- Vulnerabilities of non-performance are reduced. There are, for example, fewer air strikes in aviation than for surface modes

Intermodal Transport Systems

Combined transportation

This is a growing modal sector where road and rail transport operations are combined. Such a combination offers a number of key advantages, both operational and economic. Due to its current predominance in its perceived role in protecting the environment by reducing road journeys, a growing number of logistics firms are now seen to be exploiting these `green' advantages.

It is expected that these operations will expand, as the rail network is developed to accommodate larger containers on rail and `piggyback' traffic (those in which standard road semi-trailers are carried on special rail wagons). The current drive by blue-chip companies to portray their environmental credentials to customers, shareholders and the general public by their increasing use of road-rail transport - to say nothing of the cost and service efficiency benefits they may also gain, will also lead to an increase in this mode of transportation.

Ferry Operations

RO/RO (Roll-On/Roll-Off) ferry operations are a form of intermodal transport providing the sea-crossing link for international road-born traffic (a former rail RO/RO ferry link between England and France ceased operation with the opening of the Channel Tunnel in 1994). Mainly these operate on short sea routes such as the cross-channel services, but longer crossing such as the 22-hour Harwich to Hamburg (Germany) route are popular for heavy vehicle traffic

heading into Northern German and East European destination such as Poland, the Czech Republic and Slovakia and Hungary.

Freight through the Channel Tunnel

Although not a modal choice in its own right, the use of the Channel Tunnel provides an increasingly important intermodal form of transport for international freight by road and rail in a similar way to RO/RO ferry operations. Euro tunnel's freight shuttle service is a rolling motorway-type system between Folkestone (England) and Coquelles (France) in which lorries drive on to a rail system at one end directly from the motorway and off at the other end of the 35-minute transit straight onto the motorway. This is a fast, efficient, virtually seamless, system that has all the advantages of a through road journey (that is, under the control of one driver from start to finish with no intermediate load trans-shipment).

Although not totally impervious to the effects of bad weather, Channel Tunnel services are much less susceptible to delays through such conditions than the cross channel ferries for example.

Rail freight through the Channel Tunnel falls into two categories: conventional wagon-.
load traffic (including a large volume of new motor cars, for example) and, of greater interest in the context of this chapter, intermodal swap body traffic loaded to rail at inland terminals from road vehicles and trunk-hauled to international destinations in Europe. Whereas some of this is ad-hoc traffic, since the opening of the Channel Tunnel in 1994, a number of regular services to key destinations have developed.

One important benefit that the Channel Tunnel offers is the optimum warehouse location where markets are seen as predominately European.

Where to find Supplier Sources

- Yell.com
- Kelly's
- The Institute of Logistics and Transport
- Institute of Freight Forwarders
- The International Chamber of Commerce
- British International Freight Association
- Freight Transport Association
- International Cargo Handling Co-ordination Association
- Compass
- Local Chambers of Commerce
- Local Directories
- Road Haulage Association
- Freight Management magazine

Other Considerations

Expansion of the EU

It should also be remembered that as the European Union is expanding eastwards many new members may provide new opportunities for trading and as a consequence will bring transportation issues.

Duties Payable and Demurrage costs

It is prudent to consider any duties payable. If freight costs are levied on the supplier then they are liable to duty costs as well. Demurrage costs (an amount payable to an airline/ship owner if goods are not loaded, unloaded and removed from port within a specified period) should also be considered. The buyer will only receive 24 hours free demurrage at an airport when the goods land at an incoming airport; they will however normally receive at least 7 days free storage at an incoming port.

Documentation linked to International transportation

If not using a freight forwarder who will sort out documentation for you, you will need 7 primary types of documentation when trading internationally:

1. Bill of lading: linked to freight
2. Certificate of Origin/EUR 1 Document
3. Certificate of Insurance: linked to insurance
4. Commercial Invoice and packaging list: linked to finance
5. Documentation linked to HM customs and Excise: linked to legal
6. Letter of Credit
7. Import or Export Licensing/Governmental and/or other official body restrictions

Much of the documentation has been simplified and streamlined in recent years and as technology advances it is being prepared and transmitted electronically.

Documents required by HM customs and Excise

Customs and Excise look for evidence of value in order to assess any import duty payable
To that end they take a close interest in:

- The value of the goods
- The mode of transport
- Insurance cover
- Their legitimacy (no illegal imports)

HM Customs and Excise will require to see:

- Commercial Invoices
- Evidence of freight contracted and charged for
- Evidence of insurance
- Any relevant licenses/permits/carnets
- EU transit document (where goods are imported from a non-member of the EU)

Charter Parties

A Charter Party is a contract whereby a ship owner agrees to place his or her ship or part of it at the disposal of a merchant or other person (known as the charterer) for the carriage of goods from one port to another port on being paid freight, or to let his/her ship for a specified period.

It is quite common to find that one cargo will fill a whole ship and in these circumstances one cargo or one charterer will enter into a special contract with the ship owner for the hire of their ship. Such a contract is known as a charter party.

Linear conferences

These exist in many deep-sea cargo trades. Such organisations operate a rates parity among the ship-owners, with member offering rebates for customer loyalty. The services are reliable and of a high quality, but the importer is given little room to manoeuvre in terms of a high quality, but the importer is given little room to manoeuvre in terms of rate manipulation either through the forwarding agent or directly with the shipping company.

Linear conferences are organisations whereby a number of ship-owners offer their services in the given sea route on conditions agreed by the members. They are, in other words, semi-monopolistic association of shipping lines for the purpose of restricting competition between the members and protecting them from outside competition. Conference agreements may regulate sailing and ports of call and, in some cases, arrangement is made for the pooling of net earning.

Incoterms 2000

An Incoterm is an abbreviation of International Commercial terms, and the chosen INCOTERM is a term of contract of sale.

The latest edition, which became effective on 1 Jan 2000, takes account of the increased use of intermodal transport by providing for the delivery of goods from seller to the buyer at any point in the transport chain instead of concentrating as in the past on the movement of goods over the ships rail.

Trade terms are, in fact key elements of international contracts of sale, since they advise the parties what to do with respect to:

- The carriage of goods from seller to buyer
- Export and import clearance

They also explain the division of costs and risks between the parties and are used to clarify the distribution of functions: costs and risks between buyer and seller.

Incoterms are important because they allow standardisation of contracting practice so allowing the parties to the international contract to:

- Use generally recognised key words
- Agree on the most common understanding of such key words
- Avoid misunderstanding in their use.

Traders often believe that Incoterms can solve most difficulties that arise in practice. This is not the case problems remain, because:

- Commercial practice is inconsistent worldwide
- Variations on the basic key word may not be appropriate or sufficiently clear
- The INCOTERM is not sufficiently precise
- The parties to the contract misuse the correct term for the transaction.

Which Incoterms should be chosen?

We look to commercial practice and the type of goods to dictate whether:

- The seller should refrain from undertaking any additional obligation
- The seller is prepared to do more than to make the goods available to the buyer at the seller's premises
- The buyers bargaining position allows them to require the seller to undertake extended obligations
- The seller is able to undertake additional obligations and in particular to quote a more competitive price by extending their obligations
- It is necessary to use the maritime terms FAS, FOB, CFR or CIF when the goods are intended to be resold by the buyer before they reach the destination

Incoterms 2000 (see http://www.iccwbo.org/incoterms/preambles.asp for updates) has four main categories:

Group E: Departure
Under EXW, the seller minimises his risk by only making the goods available at his own premises
EXW: ex works (named place) – The carriage is arranged by the buyer, risk transfer from the seller to the buyer when the goods are at the disposal of the buyer and the cost transfer from the seller to the buyer when the goods are at disposal of the buyer.

Group F: Main Carriage not paid by seller
Under F Terms, and under FCA unless otherwise agreed, the seller arranges and pays for the pre-carriage in the country of export.

FCA: free carrier (named place) – carriage to be arranged by the buyer or the seller on the buyer's behalf, risk transfer from the seller to the buyer when the goods have been delivered to the carrier at the named place and the cost transfer from the seller to the buyer when the goods have been delivered to the carrier at the named place.

FAS: free alongside ship (named port of shipment) – Carriage arranged by the buyer, risk transfers from the seller to the buyer when the goods have been placed alongside the ship and the cost is transferred from the seller to the buyer when the goods have been placed alongside the ship.

FOB: free on board (named port of shipment) – Carriage to be arranged by the buyer, risk transfer from the seller to the buyer when the goods pass the ship's rail and the cost from the seller to the buyer when the goods pass the ship's rail.

Group C: Main carriage paid by seller
Under C Terms the seller arranges and pays for the main carriage without assuming the risk of the main carriage.

CFR: cost and freight (names port of destination) – Carriage to be arranged by the seller, risk transfers from the seller to the buyer when the goods pass the ship's rail and the cost transfers at the port of destination, buyer paying such costs as are not for the sellers account under the contract of carriage.

CIF: Cost, insurance and freight (named port of destination) – Carriage and insurance to be arranged by seller, risk transfer from the seller to the buyer when the goods pass the ship's rail

and costs transfer at port of destination, buyer paying such costs as are not for the seller's account under the contract of carriage.

CPT: carriage paid to (named place of destination) – Carriage is arranged by the seller, risk transfer from the seller to the buyer when the goods have been delivered to the carrier. Cost transfer at place of destination, buyer paying such costs are not for the seller's account under contract of carriage.

CIP: carriage and insurance paid to (named place of destination) – Carriage and insurance to be arranged by the seller, risk transfers from the seller to the buyer when the goods have been delivered to the carrier and cost are transfer at place of destination, the buyer paying such costs as are not for the seller's account under the contract of carriage.

Group D: Arrival
Under D Terms the seller's cost/risk is maximized because he must make the goods available upon arrival at the agreed destination.

DAF: delivered at frontier (named place) – Carriage to be arranged by seller, risk transfer from the seller to the buyer when the goods have been delivered at the frontier, and cost transfer from the seller to the buyer when the goods have been delivered at the frontier.

DES: delivered to ex ship (named port of destination) – carriage to be arranged by the seller, risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on board the ship and cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on board the ship and cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on board the ship.

DEQ: delivered ex quay (named place of destination) – Carriage to be arranged by the seller, risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the quay and cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the quay.

DDU: delivered duty unpaid (named place of destination) – Carriage to be arranged by seller, risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer and the cost transfer from seller to the buyer when the goods are placed at the disposal of the buyer.

DDP: delivered duty paid (named placed of destination) – Carriage to be arranged by the seller, risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer and cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer.

Strategic issues

The UK Government has set a target to increase the proportion of the UK's freight transported by rail by 80% between 2001 and 2010. The Government will also work with European partners to promote freedom of access to the European rail network.

The Government is planning to introduce a Lorry Road-User Charge, where lorry operators will pay an amount related to the distance that they travel on UK roads. However, these charges will be offset by tax cuts at the same time. There is also a proposal to require all commercial

vehicles operating in the UK to pay some form of excise duty, which currently is not paid by foreign operators.

The Freight Facilities Grant (FFG) is available from the Government to assist with the extra costs generally associated with moving freight by water by offsetting the capital costs of providing water freight handling facilities. It is hoped that the grant will encourage more people to move freight by water instead of roads. (http://www.environment-agency.gov.uk)

Along with considering the Integration of transport to get goods into your business it is important to also consider aspects of actually fetching goods into the business i.e., packaging and what to do with it once goods are unpacked and how to store Inventory etc.

Conclusion

This How To publication is intended to give the reader a guide into how to go about the contracting of transport services. The guide covers the major forms of transport with the main characteristics and advantages and disadvantages of each but as each business will have different requirements and, in fact, each shipment may have different requirements it is not possible here to be specific about which mode should be used and when.

We have listed here sources for gaining further information but do not overlook expertise that may already exist in your own organisation as this is unlikely to be the first consignment shipped. Likewise do not be afraid to approach your supplier/ customer as this too could be an invaluable source of information. As stated earlier it is possible to outsource your transport issues to a Logistics Company or Forwarding Agent depending upon the destination/source of the goods, either of which will work with you to achieve a satisfactory solution albeit at a cost premium.

CIPS Group Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom
T +44 (0)1780 756777 F +44 (0)1780 751610 E info@cips.org

CIPS Africa Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E infosa@cips.org.za

CIPS Australasia Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E info@cipsa.com.au

CIPS Middle East & North Africa Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E mena.enquiries@cips.org

www.cips.org