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FREIGHT FORWARDERS, CUSTOMS BROKERS AND INCOTERMS

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While exporting can greatly contribute to a firm's economic growth, it can also be a time consuming process for the small and medium-sized business. This article outlines ways in which exporters can mitigate confusion and delays associated with international trade logistics.

WHAT IS A FREIGHT FORWARDER?

To comply with export documentation and shipping requirements, many exporters utilize a freight forwarder to act as their shipping agent. The forwarder advises and assists clients on how to move goods most efficiently from one destination to another. A forwarder's extensive knowledge of documentation requirements, regulations, transportation costs and banking practices can ease the exporting process for many companies. Freight forwarders are licensed by the International Air Transportation Association for air cargo and by the Federal Maritime Commission for handling ocean bound cargo.

WHY SHOULD I USE A FREIGHT FORWARDER?

Whether the firm is large or small, the weight of the cargo light or heavy, the freight forwarder will take care of cargo from "dock to door" if requested to do so. This can include the correct filing of export documentation, all arrangements with carriers, packing, crating and storage needs. So, the small and medium-size exporter need not deal with many of the details involved with the logistics of exporting their goods. In addition, freight forwarders typically charge modest rates for their services and have access to shipping discounts. Given the years of experience and constant attention to detail provided by the forwarder, it may be a good investment.

HOW CAN I FIND FREIGHT FORWARDER?

Freight forwarders are located in most metropolitan areas. Local business telephone listings often feature a freight forwarder or transportation heading. Additionally, the National

Customs Brokers and Forwarders Association of America will provide exporters with information on their members. They can be reached at:

1200 18th Street, NW,
Suite 901
Washington, DC 20036,
Tel: (202) 466-0222,
Web: www.ncbfaa.org

Privately operated forwarder listing services can be useful when looking for a local forwarder. The following websites have listings:

- www.forwarders.com
- www.1800miti.com/links/page84.html
- www.freightgate.com/directories/directories.tet
- www.freightworld.com/forwarder.html

WHAT IS A CUSTOMS BROKER?

A customs broker performs transactions at ports on behalf of other parties. In other words, an importer, whether into the United States or another country, hires a customs broker to guide their goods into a country. Like the forwarder, the broker will recommend efficient means for clearing goods through the maze of customs entry protocol. The broker can also estimate the landed costs for shipments entering the country. U.S. exporters typically do not book shipments directly with a foreign customs broker, because freight forwarders often partner with customs brokers overseas who will clear goods that the forwarder ships to the overseas port. Conversely, those same foreign customs brokers contract the services of the domestic freight forwarder when the goods are headed in the opposite direction.

The transactions negotiated for the importer will include the entry of goods into a customs territory, payment of taxes and duties and duty drawback or refunds of any kind. Furthermore, the broker has knowledge of regulations not only from the corresponding customs authority, but also from other regulating agencies involved in imports.

WHAT ARE INCOTERMS AND WHEN ARE THEY USED?

Incoterms is an abbreviation of International Commercial Terms, which were first published in 1936 by the International Chamber of Commerce. Since that time there have been six different revisions and updates to the Incoterms. The Incoterms provide a common set of rules for

the most often used international terms of trade. The goal of the Incoterms is to alleviate or reduce confusion over interpretations of shipping terms by outlining who is obligated to take control of and/or insure goods at a particular point in the shipping process. Furthermore, the terms outline the obligations for the clearance of the goods for export or import and packing requirements. The Incoterms are used quite frequently in international contracts and an official version of the Incoterms should be referenced in the text of the contract.

Although the Incoterms are widely used and exceedingly handy, they are not appropriate for every type of contract. Specifically, the terms used in a contract state exactly when the shipper unloads and relinquishes obligation and when the buyer takes over for carriage and insurance. The Incoterms are not meant to replace statements in a contract of sale that outline transfers of ownership or title to goods. Therefore, the Incoterms may not be of use when looking to resolve disputes that may arise regarding payment or ownership of goods.



WHAT ARE SOME EXAMPLES OF INCOTERMS?

Incoterms fall into four different groups: Departure (E), Main Carriage Unpaid (F), Main Carriage Paid (C) and Arrival (D). The point at which liability and carriage transfer from the seller to the buyer distinguishes the groups and each group's letter corresponds to the first letter of an INCO Term. For example, if your agreement with a buyer calls for the seller to release goods at the seller's location (Departure group), the INCO Term Ex Works (EXW) would be used. Ex Works states principally that the buyer takes over carriage and insurance responsibilities at the seller's dock. Alternatively, if the seller were to deliver goods to the buyer's dock, including all carriage and insurance, a term from the arrival group such as DDP (Delivered Duty Paid) would be appropriate. DDP requires that the seller deliver goods to the buyer's dock with all carriage, insurance and duties paid. In the range of Incoterms, DDP entails the most obligations for the seller, whereas EXW represents the least.

Caution must be exercised when using Incoterms because they relate to particular modes of transportation. For example, Incoterms such as FOB (Free on Board) and CIF (Cost, Insurance and Freight) are only applicable to sea transport. FOB indicates that the shipper (seller) has upheld his/her part of the agreement when the goods pass the ship's rails at the port of exit. The receiving party (buyer) assumes risk and costs associated with the goods once they pass the ship's rail in the seller's homeport. Due to the specific mention of the ship's rails, an aircraft or other mode of transport could not be used with FOB. For a shipment scheduled for delivery by air, rail, or some other form of transport with the same agreement as FOB one would need to use

the Incoterm FCA, or Free Carrier. FCA can include other modes of transportation such as road, rail, inland waterway and air. Whereas transfer under FOB takes place when the cargo passes the ship's rails, transfer with FCA occurs when delivery of goods has been made at a destination previously outlined by the buying party.

These examples are not an exhaustive or definitive guide, but serve to highlight common Incoterms used in exporting. See the resources below for further information.



WHERE CAN I LEARN MORE ABOUT INCOTERMS?

Several avenues exist for obtaining information on the Incoterms. The International Chamber of Commerce publishes the Incoterms and can be contacted directly to receive related materials at ICC Publishing, 156 Fifth Avenue, Suite 417, New York, NY 10010, Tel: (212) 206-1150, or www.iccbooks.com.

In addition to the hard copy version of the Incoterms, many different websites list definitions of the Incoterms. Following are several of the sites currently available:

www.look4logistics.com
www.shipst.com/shipping/incoterms.asp
www.iccwbo.org/incoterms/understanding.asp
www.dsayles.com/incoterm.htm
www.1800miti.com/links/page87.html
www.foreign-trade.com/schedules.htm

For more information on freight forwarders, customs brokers, and Incoterms, contact the Trade Information Center at (800) USA-TRAD(E) Monday through Friday 8:30 to 5:30 EST, by email at tic@ita.doc.gov, or visit our web site at <http://tradeinfo.doc.gov>.

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