



# Basics of Exporting Seminar

Carolyn Turner

Alabama International Trade Center

# International Shipping



- ◆ Packaging
- ◆ Insurance
- ◆ Tariffs
- ◆ Freight Forwarders
- ◆ Documentation
- ◆ Incoterms® 2010

# Packaging

- ◆ Cargo must be packaged for international shipment — protect the shipment while in transit
- ◆ Ocean cargo: FCL, LCL, Break Bulk
- ◆ Air cargo
- ◆ Wood Packaging Requirements: International Plant Protection Convention (IPPC) - International Standards For Phytosanitary Measures No. 15 (ISPM 15)

# FCL Ocean Cargo



Pallets that are well constructed allow the goods to be protected during handling.



# LCL Ocean Cargo



A well-designed  
LCL box.

# Wood Treatment



The **International Plant Protection Convention (IPPC)** mandates that wood used for packing or dunnage be treated with chemicals to prevent insect infestations.

**HT: heat-treated**  
**DB: debarked**  
**MB: methyl bromide**



# Air Transport



Air cargo containers are much different from ocean cargo containers.



# Insurance

- ◆ Most carriers have very limited liability
- ◆ Perils of Sea: Cargo Movements, Water Damage, Overboard Losses, Jettison, Fire, Sinking, Stranding, Theft, Piracy, General Average
- ◆ Perils of Air: Cargo Movement, Theft, Exposure to Weather
- ◆ Ocean and Air Freight Insurance
  - Ocean – All Risk, General Average, Free of Particular Average ; Coverage A, B, or C
  - Air – Typically All Risk policy
- ◆ Insurance Certificate



# Water Damage



As ships encounter stormy seas, waves wash overboard.

# Jettison



On occasion, the captain of a ship has to throw some cargo overboard in order to save the ship.



# Fire



Because dangerous cargo can only travel internationally by ocean, items like fireworks, explosives, ammunition, and chemicals of all sorts are stowed on decks of ships.

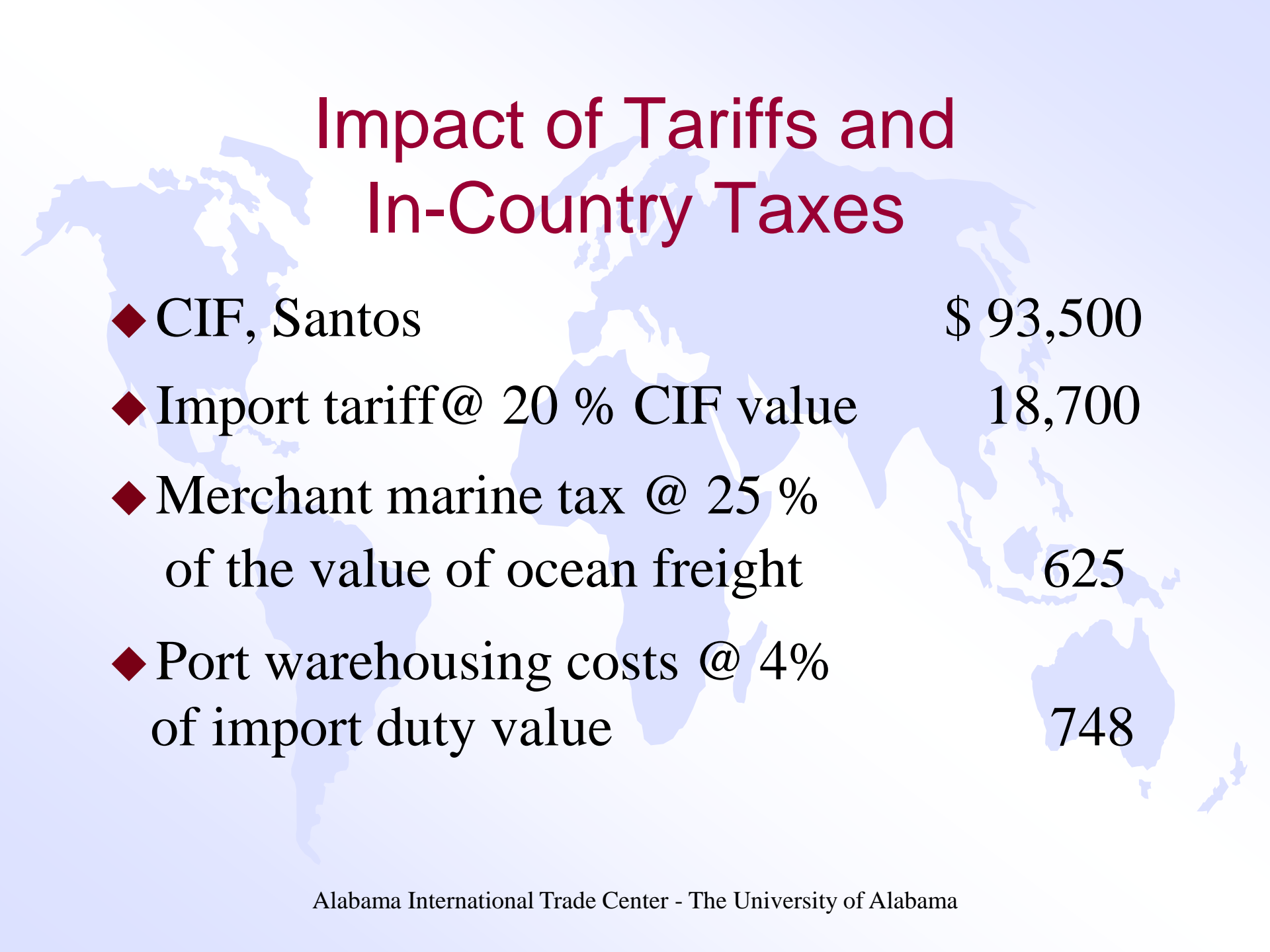


# Impact of Tariffs and In-Country Taxes

◆ Price EXW, U.S. Plant	\$ 90,000
◆ Inland freight & port handling	1,000
◆ FOB Charleston	91,000
◆ Ocean freight and insurance	<u>2,500</u>
◆ CIF, Santos, Brazil	\$ 93,500

(BEFORE goods enter Brazil)

# Impact of Tariffs and In-Country Taxes



◆ CIF, Santos	\$ 93,500
◆ Import tariff @ 20 % CIF value	18,700
◆ Merchant marine tax @ 25 % of the value of ocean freight	625
◆ Port warehousing costs @ 4% of import duty value	748

# Impact of Tariffs and In-Country Taxes

- ◆ ICMS (State VAT) tax @ 18 % of CIF value \$ 16,830
- ◆ Syndicate Fee - Brazilian Bank charges @ 2 % of CIF value \$ 1,870
- ◆ Total BEFORE goods enter distribution system \$ 132,275



# Impact of Tariffs and In-Country Taxes

◆ EXW, U.S. plant	\$ 90,000
◆ FOB, Charleston	\$ 91,000
◆ CIF Santos, Brazil	<u>\$ 93,500</u>
◆ Taxes in Brazil	\$ 38,775
◆ <u>To Your Rep in Brazil</u>	\$ 132,275
◆ Minimum cost increase:	46.9 %

# Basic Functions of a Freight Forwarder

- ◆ Quoting and securing freight costs
- ◆ Booking cargo with carrier
- ◆ Preparing documents for export
- ◆ Inland routing and documentation
- ◆ Insurance

# Expanded Role of a Freight Forwarder

- ◆ Consolidator of freight
- ◆ Indirect carrier (NVOCC)
- ◆ Inventory control
- ◆ EDI interfacing
- ◆ Logistics management



# Evaluating a Forwarder



- ◆ Full service?
- ◆ Responsiveness?
- ◆ Financially sound?
- ◆ Shipment tracking?
- ◆ Accuracy of documentation?
- ◆ Competitive rates and service?
- ◆ Communication and trust?

# Criteria for Making a Rate Request

- ◆ What is the type service required?
- ◆ What is the commodity?
- ◆ What is the origin/destination?
- ◆ What are the dims, weight, and # of pcs?
- ◆ What are the transit time requirements?
- ◆ How soon do you need a response?

# Gathering Cost Data



- ◆ Analyzing the costs in relation to the terms of sale (from where to where)
- ◆ Type of equipment required and its effect on cost
- ◆ Are inland factors 'included in the ocean or air rates?
- ◆ Projecting future costs



# Types of Export Documents

- ◆ Basic documents – CI and PL
- ◆ Transport documents
- ◆ Collection or payment documents
- ◆ Documents for gov't requirements
- ◆ Documents required by the buyer
- ◆ See export.gov for templates:  
[http://export.gov/logistics/eg\\_main\\_018121.asp](http://export.gov/logistics/eg_main_018121.asp)

# Transportation Documents



- ◆ Shippers letter of instruction
- ◆ Dock receipt
- ◆ Ocean bill of lading
- ◆ Air waybill
- ◆ Export declaration or EEI
- ◆ Insurance certificate



# Collection or Payment Documents

- ◆ Letter of credit
- ◆ Drafts (sight or time)
- ◆ Commercial Invoice
- ◆ Bill of Lading

# Bill of Lading

Serves three purposes:

(1) Receipt for the merchandise

(2) Contract for shipment

(3) Title Document

◆ Addresses the point of delivery of the goods and the charges included to that point.

# Government Documents



- ◆ Consular invoice
- ◆ Certificate of origin
- ◆ Phytosanitary certificate
- ◆ Export license
- ◆ Hazardous materials forms



# Documents Required by Buyer



- ◆ Certificate of inspection
- ◆ Certificate of Free Sale

# Incoterms® 2010

What are Incoterms® ?

- ◆ **International Commercial Terms (Incoterms)**
- ◆ **With the 2010 version, the word “Incoterms” becomes a registered trademark of the International Chamber of Commerce in Paris.  
(And I understand they intend to aggressively protect this mark!)**
- ◆ **And for the first time these terms are now referred to as **RULES****
- ◆ **Will be in some 36 (or more) languages**

# Incoterms® 2010

What are Incoterms® ?

- ◆ **Abbreviated in a three letter format, *and the abbreviations are always in English.***
- ◆ **Typically quoted with a specific geographic location of delivery, as Ex Works Seller's Plant (500 Pine St, Montgomery, AL, USA) or can be as simple as FOB Any USA Port (but usually best to be specific as you can).**

# Incoterms® 2010

Why are Incoterms relevant (and for whom)?

- ◆ Provides a clear, universal set of standards for multi-lingual, multi-cultural, “multi-legal” usage -- very practical and based more on business practices than legal principle.
- ◆ Specifies which party -- either the seller or the buyer -- has the obligation for carriage (transport), insurance, related costs and (trade) compliance.
- ◆ Now a set of rules that are designed for *both* domestic and international transactions.

# Incoterms® 2010

**What Incoterm Rules Don't Do :**

**By themselves, they do not address transfer of legal title of the goods.**

**Rather, title passage is usually addressed in the sales/purchase contract or, if not, by default it is addressed by sovereign (local) law. Legal ownership passage usually requires two events:**

**Delivery + Payment = Title Transfer**



# Incoterms® 2010

## What Incoterm Rules Don't Do :

- ◆ **By themselves, Incoterms are not law and do NOT automatically apply to every sales transaction of tangible goods.**
- ◆ **The parties must specify that their transaction is subject to Incoterms® 2010.**
- ◆ **If silent, the default in the USA is the UCC for domestic transactions.**
- ◆ **Or, for cross border transactions, the (USA) default may be the UCC or, in some instances, the UN Convention on the Sale of Goods (CISG) to which the USA is a party (similar to treaty status).**

# Incoterms® 2010

What Incoterm Rules Don't Do :

- ◆ **Incoterms are not Payment Terms (although payment timing is commonly tied to the event of delivery).**
- ◆ **Payment Terms + Incoterms = Terms of Sale**

# Incoterms® and Sales Contracts -- Key Elements

- Full (legal) name and address of parties
- Good, practical description of the goods that can be used to verify the customs classification
- Shipping Instructions (and packing) & Insurance
- Payment terms and currency
- Incoterms®
- Passing of title (e.g., after delivery and payment)
- Timing for events (latest shipment, etc.)
- Applicable law and dispute resolution (as the ICC)
- Duly signed by authorized parties

# Incoterms 2010 – What's New?

- ◆ New Layout – Divided into two distinct sections
  - Any Mode Terms: DDP, **DAP**, **DAT**, CIP, CPT, FCA, EXW
  - Waterway/Maritime Terms: FOB, FAS, CFR, CIF
  - As opposed to 2000 version that began with EXW and progressed to DDP – Least to most risk
- ◆ Includes explanation of terms used in the book
- ◆ 11 Terms (Down from 13)
  - **DAF**, **DES**, **DDU**, & **DEQ** have been removed and replaced by **DAP** & **DAT** respectively
- ◆ Graphics added to illustrate risk and obligation



# Any Mode Terms

- ◆ EXW
- ◆ FCA
- ◆ CPT and CIP
- ◆ DAP, DAT and DDP



# Sea and Inland Waterway Transport Terms

◆ FAS

◆ FOB

◆ CFR

◆ CIF

# Incoterms 2010 Chart

Any Mode Terms	Control of Costs	Main Carriage Cost	Risk of Costs
Departure, Freight Collect			
<b>EXW (Ex-Works)</b>	Buyer	Buyer	Buyer
Main Carriage Freight Collect			
<b>FCA (Free Carrier)</b>	Buyer	Buyer	Buyer
Main Carriage Freight Prepaid			
<b>CIP (Carriage &amp; Insurance Paid To)</b>	Seller	Seller	Buyer
<b>CPT (Carriage Paid To)</b>	Seller	Seller	Buyer
Arrival, Freight Prepaid			
<b>DAT (Delivered at Terminal)</b>	Seller	Seller	Seller
<b>DAP (Delivered at Place)</b>	Seller	Seller	Seller
<b>DDP (Delivered Duty Paid)</b>	Seller	Seller	Seller

# Incoterms 2010 Chart

Sea, Inland Waterway Transport Terms	Control of Costs	Main Carriage Cost	Risk of Costs
Main Carriage Freight Collect			
<b>FAS (Free Alongside Ship)</b>	Buyer	Buyer	Buyer
<b>FOB (Free on Board)</b>	Buyer	Buyer	Buyer
Main Carriage Freight Prepaid			
<b>CFR (Cost and Freight)</b>	Seller	Seller	Buyer
<b>CIF (Cost, Insurance, and Freight)</b>	Seller	Seller	Buyer



# THANKS

Carolyn Turner

Alabama International Trade Center

205-348-7621

[cturner@aitc.ua.edu](mailto:cturner@aitc.ua.edu)

[aitc.ua.edu](http://aitc.ua.edu)